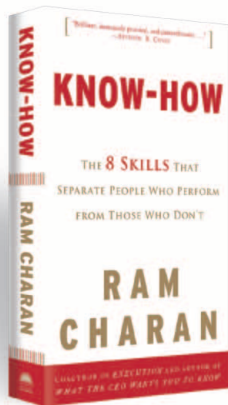




# Executive Book Summaries®

FILE: LEADERSHIP



By Ram Charan

## The 8 Skills That Separate People Who Perform From Those Who Don't

# KNOW-HOW

### THE SUMMARY IN BRIEF

Legendary executive adviser and author Ram Charan has developed an integrated, holistic approach to what executives and managers must do and be to become successful leaders. According to Charan, leadership is a messy phenomenon because there are a number of things that influence it. Therefore, he has identified the skills that are required by today's business leaders, the personal traits and emotions that can help or interfere with these skills and the cognitive traits that can improve them.

In this summary, Charan presents a framework for leaders in the 21st century. By taking a broad view of the landscape to see how it is changing over time, Charan shows how leading a business is an ongoing process in which leaders must repetitively deploy and redeploy their know-how, which he defines as the quality that separates leaders who perform — those who deliver results — from those who don't.

This summary reveals Charan's perspective on the underlying foundation of business success, key components of which are his eight know-hows. These are specific skills Charan has identified that range from being able to position and reposition a business to dealing with societal forces beyond the market. Command of the know-hows, he says, can provide leaders with both practical and human-based perspectives that will enable them to meet situations with creative instead of standard approaches. Each of the eight is illustrated with detailed case-history material.

In addition, this summary will show you:

- ✓ *Why these know-hows must be put at the core of what business leaders do every day.*
- ✓ *How these competencies can be mastered as the basis for future success.*
- ✓ *How to use a holistic approach to lead an organization.*
- ✓ *How to shape your value proposition so it fits with the changing external landscape in a way that delivers on your moneymaking aspirations.*
- ✓ *Ways to deal with forces outside your control.*
- ✓ *Why the ability to listen is essential when confronting special-interest groups.*

## CONTENTS

### Know-How

Pages 2, 3

### The Foundation: Positioning and Repositioning the Business

Pages 3, 4

### Before the Point Tips

Pages 4, 5

### HerdinG Cats: Managing the Social System

Pages 5, 6

### How Leaders Are Made

Page 6

### Unity Without Uniformity

Pages 6, 7

### The Buck Starts With You

Page 7

### It's Monday Morning — Now What?

Pages 7, 8

### Societal Forces

Page 8

# KNOW-HOW

by Ram Charan

## — THE COMPLETE SUMMARY

### Know-How

Know-how is what separates leaders who perform — who deliver results — from those who don't. It is the hallmark of people who know what they are doing, those who build long-term intrinsic value and hit short-term targets.

What gets in the way of finding people who can perform is the *appearance* of leadership. All too often people are chosen for leadership jobs on the basis of superficial personal traits and characteristics. Certainly intelligence, self-confidence, presence, the ability to communicate and having a vision are important. But being highly intelligent doesn't mean that a person has the knack for making good business judgments.

Personal attributes are just one small slice of the leadership pie, and their value is greatly diminished without know-how — the eight interrelated skills that bring leadership into the realm of profit and loss.

We need leaders who know what they are doing. Change is always with us, but its current magnitude, speed and depth are unlike what most executives and managers have experienced in their lifetime.

A Google-type company can come from nowhere and grow into a multibillion-dollar business in a few short years, becoming one of the world's most highly valued companies. However, alongside such huge opportunities, there are also pitfalls that can swallow up whole companies and industries.

### The Eight Know-Hows

Here is a breakdown of the eight know-hows:

**1. Positioning and Repositioning:** Finding a central idea for business that meets customer demands and that makes money.

**2. Pinpointing External Change:** Detecting patterns in a complex world to put the business on the offensive.

**3. Leading the Social System:** Getting the right people together with the right behaviors and the right information to make better, faster decisions and achieve business results.

**4. Judging People:** Calibrating people based on their actions, decisions and behaviors, and matching them to the non-negotiables of the job.

**5. Molding a Team:** Getting highly competent, high-ego leaders to coordinate seamlessly.

**6. Setting Goals:** Determining the set of goals that balances what the business can become with what it can realistically achieve.

**7. Setting Laser-Sharp Priorities:** Defining the path and aligning resources, actions and energy to accomplish the goals.

**8. Dealing With Forces Beyond the Market:** Anticipating and responding to societal pressures you don't control but that can affect your business.

Command of the eight know-hows enables you to diagnose any situation and take appropriate action, lifting you out of your comfort zone of expertise by developing skills that prepare you to do what the situation requires, not just what you've traditionally been good at.

The know-hows do not, however, stand alone. There are a million things that can block human beings from making sound judgments and taking effective action. That's where personal traits, psychology and emotions enter the leadership picture. But instead of trying to define and adopt the ideal set of personal traits, it's more useful to focus on a simple question: How do your

(continued on page 3)

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### Know-How

(continued from page 2)

personal psychology and cognitive abilities affect the way you cultivate and use the know-hows?

Know-how is about what you must both do and be to lead your business in what is shaping up to be the most challenging business environment in decades. It plants business leadership squarely on a foundation of profit and loss, capital utilization, resource allocation, productivity and consumer satisfaction while never losing sight of the fact that leaders are human beings.

#### Personal Traits

The eight know-hows are especially influenced by a handful of personal traits that can affect leadership: ambition, drive and tenacity, self-confidence, psychological openness, realism and an insatiable appetite for learning.

It is important to understand that these personal traits interact with one another and with the know-hows, for better or worse, and that, in excess, they have a dark side. Overconfidence combined with excessive drive, for instance, can lead to narcissistic behavior, overcompetitiveness and distrust of others. Combine those traits with being psychologically closed and overoptimistic, and you are sure to shut down anyone hinting at bad news or suggesting that there are practical limitations to your plans.

### Personal Traits and the Know-Hows

The following are the personal traits that can help or interfere with the know-hows:

- ✓ **Ambition** — to accomplish something noteworthy BUT NOT win at all costs.
- ✓ **Drive and Tenacity** — to search, persist and follow through BUT NOT hold on too long.
- ✓ **Self-Confidence** — to overcome the fear of failure, fear of response or the need to be liked and use power judiciously BUT NOT become arrogant and narcissistic.
- ✓ **Psychological Openness** — to be receptive to new and different ideas AND NOT shut other people down.
- ✓ **Realism** — to see what can actually be accomplished AND NOT gloss over problems or assume the worst.
- ✓ **Appetite for Learning** — to continue to grow and improve the know-hows AND NOT repeat the same mistakes.

The best leaders have distinct cognitive abilities that go beyond simply being bright. Their thinking encompasses a wide range of altitudes from the conceptual to the specific, they have a broad cognitive bandwidth, meaning they see things through a wide lens, and they are good at reframing issues and problems, looking at them from various points of view. ■

### The Foundation: Positioning and Repositioning the Business

Positioning is the central idea of your business and the foundation for whether or not you are making money. The true test of your positioning is the real world. If people like what you have to offer and you can sell it at a profit, you'll make money. If they're confused about what your business provides or they don't like it, you won't.

Positioning is not for eternity. The frequency, depth and abruptness of change in the world today means that you will be frequently shaping and reshaping your business so that it fits with the ever-changing landscape in a way that delivers your moneymaking aspirations.

Over the course of a 40-year career, most 21st-century leaders will have to reposition businesses four or more times. That means making basic decisions about what to add to the business and what to take out. It also means spotting new opportunities for profitable growth, resegmenting markets and deciding which technologies to adopt.

Knowing how to position and reposition a business is among the most demanding requirements of the 21st-century leader. While all eight know-hows are important, the know-how of positioning is first among equals. If you don't get it right, the foundation of the business eventually crumbles.

#### CEO Lee Scott Repositions Wal-Mart

Under the leadership of CEO Lee Scott, Wal-Mart has taken some dramatic steps to reposition the business, experimenting with new merchandising concepts to appeal to relatively higher-income consumers. This includes offering fine wines and making major moves into fashion. Wal-Mart has placed an eight-page advertising spread in *Vogue* magazine, presented a fashion show in New York, opened an office in Manhattan's Fashion District and hired a senior executive from Target for a top job.

Does the development of a new positioning of appealing to higher-income consumers, along with the traditional ones, run the risk of confusing the image of the Wal-Mart brand? No doubt the leaders of Target are

(continued on page 4)

## The Foundation: Positioning and Repositioning the Business

*(continued from page 3)*

watching Wal-Mart like hawks. If Wal-Mart successfully repositions, Target's relative positioning will consequently be altered. ■

## Before the Point Tips: Pinpointing Emerging Patterns of External Change

Business has always had to contend with a changing world, but the pace and abruptness of change are new to this generation of business leaders. Your job as a leader is to deal with that change, to get and stay ahead of the curve, ensuring that your business is positioned to make money now and in the future. It takes a special know-how to mentally process the complexity and deal with the ambiguity to form a view of the patterns that are emerging. It is this know-how of pinpointing external change that allows you to make a sound judgment about where the world is going and put your business on the offensive.

From World War II through the mid-1990s, change in the United States tended to be relatively linear, continuous and predictable. Now, however, abrupt, exponential change is the norm — witness, for example, the sudden and steep rise of China, and subsequently India, resulting in a disruption in the traditional flows of trade and the supply and demand of commodities, such as oil, in turn causing flux in political alignments.

### *Few Reference Points From the Past*

Many people continue to look backward for a reference point they can understand, but matches with previous patterns and cycles are nearly impossible to find. China is not Japan in the 1970s, nor is the Internet like jet transportation.

Never before have macroeconomic trends had such fast and devastating impact on companies and whole industries. Traditional ways for making business and economic assessments neither correlate with nor explain the reality of what is actually happening in the world today as they have in the past.

The opportunities have perhaps never been greater for those who are ahead of the curve and able to take action ahead of the competition. Google shaking up the media industry, FedEx expanding into Asian markets and Apple with its iPod phenomenon are just the tip of the iceberg.

### *Looking Outside In*

The earlier you can detect changes, the more time you will have to generate and test hypotheses, mobilize

## Detecting Patterns in the Complex World

Here are seven simple questions that can help you sort through and detect patterns in the complex world around you:

**1. What is happening in the world today?** The most significant trends affecting business transcend company and industry.

**2. What part of my frame of reference has worked for me? What hasn't worked for me?** The construction of your own frame of reference based on previous experience is a large part of learning to detect changes in external patterns.

**3. What does it mean for anyone?** The newspaper industry is undergoing vast changes as a result of the Internet and Google.

**4. What does it mean for us?** Once you have the big picture, you can begin to examine what it means for your own company's strategies. That's what General Electric's CEO Jeff Immelt did when he decided to meld several of GE's businesses into the infrastructure business to sell items such as energy equipment and services, railroad locomotives and aircraft items — all necessary ingredients in rapidly growing economies.

**5. What would have to happen?** Apple's invention of the iPod would have been considerably less successful had it not created iTunes, the online source of downloadable music.

**6. What do we have to do to play a role?** GE's decision to market its infrastructure products in emerging markets required it to reorganize those businesses in a way that recognized the difference between selling a power plant to an American utility and selling that same power plant to a foreign government.

**7. What do we do next?**

resources and, if necessary, reposition the business to achieve your moneymaking targets.

Looking beyond the usual boundaries of the business environment helps you detect changes early on. For instance, the political process has far more impact on business now than ever before, and it is essential that you know and understand the ramifications of legislation and regulations for your business and industry, as well as special-interest groups that may have an impact on you.

People with extraordinary know-how for detecting patterns in the external environment fly at a higher

*(continued on page 5)*

## Before the Point Tips: Pinpointing Emerging Patterns of External Change

(continued from page 4)

imaginative altitude than others. They see things that others miss, seek sources others don't and piece things together in their own creative ways. ■

## Herding Cats: Managing the Social System

Perhaps the biggest untapped opportunity for your success as a leader is shaping the way people work together to deliver the numbers. Your own performance depends on your ability to get other people to commit to and deliver their common goals.

But as every leader knows, getting people to align their efforts is a lot like herding cats. You can put a lot of energy into it and they still do as they damn well please.

Understanding the social system of your business is the best way to get a handle on the otherwise mysterious subject of managing and changing how people work together to meet ever-changing business requirements.

Every company — from a big business to the smallest two-person shop — has a social system. As people meet, they influence each other for better or worse. They develop relationships and feelings about each other. They share information and make necessary trade-offs and decisions. How they work together determines whether they deliver on the commitments they make to each other.

Managing the social system has two parts:

- **Determine what critical decisions and trade-offs must get made, and by whom, to accomplish your business goals.** Then you use that insight to design disciplined, routine, regularly scheduled meetings — operating mechanisms — to bring the right people together at the right frequency with the right information to make those decisions.

- **Actively shape the behaviors that are displayed in making those decisions.** People may be hoarding information, going off on tangents and not getting to the nub of the issues. They may also be driving individual agendas, not surfacing conflicts and failing to reach clear resolutions. Shape the content of these discussions and ensure that the right behaviors are taking place in them and the output links to results. Actively design and lead the social system of your business, which comprises all the operating mechanisms, the connections among them and what happens in them.

## Non-Negotiable Criteria

As you're moving leaders to new jobs, you have to know the person, but you also have to be sure you understand what each job really requires to succeed in it. Contrary to common belief, long lists of criteria don't clarify what's required. The opposite is true: Lengthy lists indicate fuzzy thinking and are inherently too general to point to the person who has the best chance of succeeding in that job. You have to have a laser-sharp view of what is absolutely required for a person to do well in a job and define the three or four non-negotiable criteria, things you cannot compromise on.

After years of hiring people in the retail business, Ben Cammarata, the highly successful founder and chairman of the \$15 billion off-price retail chain TJX, has had a high batting average over a 30-year period recruiting, developing and retaining leadership talent. His non-negotiable criteria are simple and clear. You must be street smart, have great people skills and be intuitively good at merchandising — none of which, he believes, can be taught.

## Diagnosing, Designing and Leading

Know-how in diagnosing, designing and leading the social system is how some leaders are able to mobilize people to deliver results and transform an organization from, say, a bureaucracy to a well-oiled machine, as Jack Welch did as CEO of GE, or from an entrepreneurial culture to one that coordinates actions without sacrificing flexibility, as Bob Nardelli did as CEO of The Home Depot. It provides the tools for actually getting things done.

Look at your business through the lens of the social system. Look at the interaction among people, the information flows and the anatomy of decision making. You have to be able to map your operating mechanisms, ensure that each of them is geared around a business result and diagnose how each of them is actually working.

If new ones are required or existing ones are obsolete, it's your job to change them. And if the people are not having the right discussions in them or behaving in the right way, it's your job to correct those behaviors, using persuasion, power and rewards, whether money, recognition or promotion, as necessary.

That's how the social system changes — through your conscious actions in designing and redesigning the operating mechanisms and conducting the dialogue in a way that shapes people's behaviors. As you do this repetitively, with discipline, you change the quality and substance of business decisions, and because the behaviors that get

(continued on page 6)

## Herding Cats: Managing the Social System *(continued from page 5)*

shaped in the operating mechanisms carry over to people's everyday work, you sustain a change in how people work together. With this know-how, you accomplish the elusive goal of culture change and develop the ability to deliver on commitments and achieve business results. ■

## How Leaders Are Made: Judging, Selecting and Developing Leaders

A sure sign of the know-how of selecting and developing leaders is that you leave the organization stronger relative to the competition than it was before you took over.

Effective leaders go on the offensive and actively search for people with leadership potential and create opportunities that leverage their abilities, test them further and allow them to grow.

That's what Jack Welch did when he lifted a young Jim McNerney (now CEO of Boeing) from vice president of marketing in GE's second-smallest business unit to be a general manager of a small P&L center in a different industry. He did an outstanding job, and one year later Welch appointed him executive vice president of GE Capital. Similarly, he boosted a young Dave Cote (now CEO of Honeywell) several levels, from his financial analyst position to general management.

The know-how of selecting leaders and helping them reach their potential means focusing on people first, not jobs — actively searching for leadership talent throughout your organization, creating career moves for those individuals that test their ability to take on more complexity or learn new skills, and creating processes to do it on a disciplined, regular basis. You have to develop and improve your judgments on people, which means spending time and energy on it daily, weekly, monthly, not just during once-a-year talent reviews or succession-planning sessions.

As you practice and improve your observational powers, you have to prevent your own psychological blockages from getting in the way of perceiving people accurately. People grow and change, and jobs continually evolve, so you have to be psychologically open to continuously update your judgments on people and their fit with the job. It's up to you to spot leadership talent, grow it and build a pipeline of leaders.

Your know-how in judging, selecting and developing leaders doesn't automatically improve just because you hire and fire a lot of people. You have to reflect on your accuracy in crystallizing what a person is good at, what

his or her potential is, and what he or she needs to improve. ■

## Unity Without Uniformity: Molding a Team of Leaders

Taking the time and effort to assemble smart and talented people who are your direct reports is crucial. But the bigger challenge is molding these high-energy, high-ego people into a working team of leaders who synchronize their efforts and propel the business forward.

Individual team members naturally focus on their own functional specialties and have their own personal ambitions, but those differences often cause them to pull in different directions. As the leader, you have to get your direct reports to submerge their egos, aggression and personal agendas so they're pulling together. You can't mediate every dispute, ensure that every trade-off is properly made or that information is flowing as it should on a daily basis, but if you use the know-how of molding a team, your direct reports will do those things as a matter of course and the business will perform better.

### *A Common Picture of the Total Business*

The centerpiece of this know-how is getting your team to understand, focus on and commit to the total business. You have to help them create a common granular picture of the business in its external context as you see it. That way, they'll know how their respective areas fit together, and they'll have both the motivation and information they need to keep their efforts aligned.

Most of the work of molding a team happens in group settings, which may require that you change the way you lead. You have to help the group create a picture of the total business and correct any divisive behaviors in the presence of the team, so you need the emotional strength to direct and stand up to powerful individuals on whom you depend. The more people can see the total anatomy of the business, the intersections of its moving parts and the broader context in which it operates, the better job they do.

Here are the principles of molding a team of leaders:

**1. Share numbers, reasoning and results to shape a common view of the business.** A team of leaders starts being molded when everyone is on the same page. The entire team needs to know what you know.

**2. Have the psychological courage to confront behaviors that harm the team's effectiveness.** If you want to mold a team of leaders, you must have the inner courage when an individual's behavior is destroying the team to confront that person head on and say it isn't acceptable and has to change.

*(continued on page 7)*

## Unity Without Uniformity: Molding a Team of Leaders

(continued from page 6)

**3. Anticipate, surface and resolve conflicts.** As the leader, you have to be sure that an overly competitive team member doesn't exploit another's vulnerability when discussing problems or concerns.

**4. Pick the right people.** You may have the best expert possible in a particular field, but if his or her ego cannot be submerged to work with the team, you have to decide what is more important to you: the person's expertise or the working of the team.

**5. Provide prompt feedback and coaching.** Feedback is most effective in written form, given frequently.

**6. Recognize and avoid derailers.** The single biggest reason for teams not performing effectively is the psychology of the leader. It often lies in a profound discomfort and even fear of giving the candid feedback that helps mold direct reports into a team. ■

## The Buck Starts With You: Setting the Right Goals

Goals are the destination you want to take your business to. Once stated clearly and communicated to the organization, goals align people's energy, and when they're linked to rewards, they have a powerful effect on people's behavior. Goals set the tone for decisions and actions that follow and greatly influence the business results that get delivered.

Selecting the right set of goals is the ultimate juggling act. The goals have to be of the right type and magnitude to be both achievable and motivational. They have to be acceptable to investors, most of whom care more about the short term, but also ensure that the business can make money in the long term. Because the pursuit of one goal necessarily affects the others, the individual goals have to be balanced with one another. Above all, the goals must reflect the opportunities in the external world, while taking into account the existing and potential ability of the organization to pursue them.

### More Than One Goal

There's a know-how to setting the right goals, in the right combination, with the right time frame and at the right level. You can't set goals by looking in the rearview mirror at what was accomplished last year and adjust this year's numbers accordingly, and you can't go by what is being projected for the industry or the economy overall. Goals should reflect the opportunities that lie ahead and what is possible *for your business* as it goes forward.

You have to choose more than one goal to keep the organization in balance, and the goals don't all have to be financial and quantitative. Goals must be clearly defined with specific time frames at the start. Then you must be willing to adjust them as the world changes and the opportunities and organizational capabilities expand or contract. ■

## It's Monday Morning — Now What? Setting Laser-Sharp Priorities

Priorities are the pathway for accomplishing goals. They provide the road map that organizes and directs the business toward its goals. When the priorities are unmistakably clear and specific, people know what to focus on and, therefore, what should get their attention, resources and follow-through. The right priorities, combined with appropriate follow-through, keep the truly important things from being driven off the radar screen in the day-to-day hurly-burly of life at work where everything can seem urgent and important.

The right priorities help you rise above the constant demands that create stress and confusion. They enable you to provide clarity and focus for yourself and the other people in your organization.

### Ground Level

Goals are set at 50,000 feet. Priorities are set at ground level where you must have the tenacity, attitude and willingness to probe the messy details to think through and define what the most important actions should be and what their second- and third-order consequences will be. Priorities determine how resources are allocated and thus have the potential for touching off clashes as resources are moved from one person to another.

Once set, you must repeat the priorities over and over again and follow through on them to be sure that people understand them, buy into them and act on them so the organization executes them and doesn't deviate from the course the priorities set.

### General Electric's Priorities

When GE's CEO Jeff Immelt determined that one of his primary goals would be to achieve an 8 percent rate of organic growth, he had to set the priorities that would ensure the business could achieve that ambitious goal. It was clear that the emerging nations, particularly China and India, would grow much faster than the developed world, so he set as one priority that GE would derive 60 percent of its growth from the emerging markets. And

(continued on page 8)

## It's Monday Morning — Now What? Setting Laser-Sharp Priorities

(continued from page 7)

since those countries would need infrastructure in the form of turbines, water purification, railroads and airlines, all businesses in which GE had a stake, he set as another priority the reorganization of those infrastructure businesses to better tap those markets.

Investing in technology — refurbishing existing GE research labs and opening labs in China and India — became a priority, as did the realignment of GE's vaunted talent planning and succession process, to define and incorporate the criteria for future growth leaders. Finally, Immelt shifted the social system by creating a new operating mechanism called the Commercial Council and changing the reviews of growth projects. He now has 80 projects of \$100 million or more on his dashboard and personally reviews 10 a month. ■

For additional information on Judgment and Strength of a Leader, go to: <http://mj.summary.com>

## Societal Forces: Dealing With Forces Beyond the Market

Every business today operates in a complex societal and political milieu that demands more of it than just profits. Business leaders have to be able to deal with market forces, and over the years they've learned to live with them. In the 21st century, business leaders will be required to deal with issues that go beyond the market.

Companies that are on the wrong side of an issue can suffer immense damage if it gains traction, which many special-interest groups know how to accomplish. They know how to organize, get access to the media, form coalitions with groups with different causes, raise money, and influence customers and governments. They have unprecedented access to information through the Internet and can disseminate their views widely at low cost. Even an individual can exert influence through a blog.

The challenge is to keep abreast of changing societal expectations and adapt your business accordingly while avoiding the landmines. Many special-interest groups raise legitimate issues, and you need to understand and respond to them. Dealing with external constituencies may not *create* shareholder value, but the failure to do so most certainly can *destroy* it, and a leader who shies away from the challenge will often wind up looking for a job.

### Forces Outside Your Control

The know-how of dealing with forces outside your control is to identify new interest groups that are emerging and to discern which groups are gaining influence and

have legitimate issues. You have to build relationships and understand the real motivations and attitudes of those groups and their leaders. You have to look for ways to communicate, knowing that if you bridge the gaps soon enough, you can help reshape the issues and outcomes. If the issues are legitimate, you should respond, maybe by building coalitions among your peers so the industry doesn't continue to be attacked.

While you have to be prepared to resort to legal channels and, frequently, negotiated settlements, you can't depend on them, because many battles take place in the court of public opinion and are won on the basis of emotional appeal rather than legal argument. Each move requires new analysis, like an evolving chess game where you have to see several moves ahead.

### Adjusting Your Attitude

You'll never master the know-how of managing external constituencies if you're not psychologically willing to deal with the inherent ambiguities and lack of control. Most leaders get into trouble because they simply ignore advocates of change whose demands don't fit squarely with a business and economic rationale.

The most effective leader is psychologically open and willing to negotiate, adept at understanding that no matter how irrational the interest group's position may seem, it makes perfect sense to the opponent. The ability to listen with an open mind and determine what the group or its leaders are really after is essential. Leaders of the future have to like this or at least not resist it. Otherwise, their organizations may be put on the defensive. Leaders must be psychologically able to anticipate such forces and deal with them effectively.

Young leaders may have something of an advantage in accepting societal pressures on business, but it's a challenge for every leader to develop a methodology and the judgment to handle it well. Clearly, being a business leader in today's world is not for the faint of heart. ■

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