



Featured Book Review

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Fruit Stands and Fortune 500 Companies

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

by Chris Bachler

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

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

Fundamentals of Business

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

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

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

In other words, while some people clearly have a greater knack for business than others, there is nothing complicated about those fundamental principles

that, if followed faithfully, can bring almost any businessperson success.

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

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

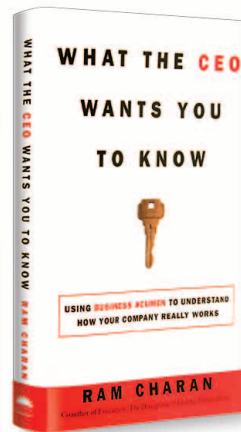
In addition, he learns to peer deeply into all the minutiae. With little complexity and no bureaucratic layers to hack through, the small-business person is blessed with the ability to understand his business as well as he knows his own mind. According to Charan, this entrepreneurial perspective is needed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

This panoramic view, however, is typically lacking within today's imperial corporations. With so much size, variety, complexity, bureaucracy and change, it is hard enough for someone to firmly

grasp his own responsibilities in his own little niche, let alone to comprehend the inner nature of the entire mega-enterprise.

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

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



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

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

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

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

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

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

Here is where Charan’s emphasis on “shoe shop” thinking comes into play.

The Best CEOs

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

A great CEO, Charan maintains, must have good “business acumen.” By this,

he means someone who “has a way of bringing the most complex business down to the fundamentals. ... The most successful business leaders never lose sight of the basics ... [and have] an insatiable desire to cut through the complexity to the fundamental building blocks of money making.”

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

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

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

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

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

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



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

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

However, Charan thoroughly disagrees with this mindset.

Image, Income and Growth

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

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

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

$$\text{Return} = \text{Margin} \times \text{Velocity}$$

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

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

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

Personal Coaching

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

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

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

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

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

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

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

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



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

Examples From Major Companies

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

A few of these anecdotes include:

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

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

What Does the CEO Want You to Know?

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

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

that their CEOs face every day.

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

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

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

Final Examination

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

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

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

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

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

The author: Ram Charan heads his own business consulting company, Charan Associates, in Dallas, Texas. He earned his MBA and Ph.D. from Harvard Business School, and for 30

years he taught at GE’s prestigious Crotonville Business Center. Charan has also written eight books, including *Know-How*, which will be released in January 2007.

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