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SURE, THE QUALITY MOVEMENT TURNED OUT TO BE A FAD, AS DOES PRETTY MUCH EVERYTHING THAT GETS LABELED A MOVEMENT. But the impulse, and the effort, were absolutely on target: Aim to *get it right the first time*, with zero defects, and you won't hemorrhage goodwill and money fixing it later.

In many areas of modern working life, though, the whole get-it-right-the-first-time idea seems antiquated and obsolete. As manufacturing becomes ever leaner, ever more of us spend our days (and mornings, and nights, and weekends) doing knowledge work that, more often than not, has no endpoint or finished product. Increasingly, the products that our organizations create and sell are digital—and subject to constant revisions, additions, and upgrades.

Not only is *right* harder to define—so is *the first time*. More and more products are rolled out slowly, in different versions, and never actually get finished. Software—in computers and, now, most other things as well—is only the most obvious example, demanding almost constant updating. One could generously see this as continuous improvement—or as indicative of a time in which both consumers and workers are learning to live with instability and uncertainty.

It's a shift that has gone mostly unnoticed but affects all of us. Surely the move away from actual, fixed products and services has left more workers feeling unmoored, with nothing concrete to hold, or behold, at week's end. It's harder to take pride in your work when that work is amorphous and subject to change at a moment's notice—and it's easy to feel nostalgic for the days when the goal was to get it right.

Why does this come to mind? Because we've been working on tcbreview.com more lately, making it more interactive, with multimedia content, online-only feature articles, and links absolutely everywhere. Currently many more people read *TCB Review* on paper, as they have since our founding in 1976, than do online. But at some point—a year? two years? five years?—that will surely change. Like every other periodical, we'll put more time into the version that's browsed on iPads and smartphones. Readers will look up archived features online rather than clipping them from bound copies.

And what that means is that the digital version, not the paper version, will eventually be the official, permanent one.

In many ways, bound volumes and daily papers and quarterly magazines are already beginning to seem like the transient media. Editors are prioritizing speed and volume over getting it right the first time, for good reason—winning the race to post a tweet or article or video clip can mean all the difference in grabbing readership. The price: regular typos and sloppiness in the print editions of formerly unimpeachable periodicals. (*The New York Times Magazine* and *The New Yorker* were, until only a couple of years ago, blemish-free; now glaring errors pop up in every issue. C'mon, people: *Buffett*, as in Warren, has two t's.)

For now, however much work we put into the website, *TCB Review* is very much still a print magazine, published in a format that complements both the articles and the way people read them, or so we're told. And even when we do make the shift and focus more on other media, we promise to at least try to get it right. The first time and always.

MATTHEW BUDMAN
Editor-in-Chief

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IDEAS AND OPINIONS FOR THE WORLD'S BUSINESS LEADERS

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It Tasted Great in the Lab

BY DAVID NOVAK

DAVID NOVAK is chairman and CEO of Yum! Brands Inc.
From Taking People with You: The Only Way to Make Big Things Happen (Portfolio/Penguin). ©2012

WHEN I WAS WORKING AT PEPSI, the biggest new thing in the beverage category was water. Clearly Canadian's flavored waters were among the hottest new products around. I was sitting in my office one day, thinking about all this, when I came up with an idea that was probably the best idea I've ever come up with in my career; at least that's what I believed at the time.

The idea was to do a clear cola, a clear Pepsi. I called my boss, Roger Enrico, who was the CEO of Pepsi at the time, and he thought it was a pretty good idea too. We did focus groups and took it to test market, and the response was unbelievable. Dan Rather even highlighted the product as the lead story on the *CBS Evening News* after a hugely successful test launch in Colorado.

At this point, I was full steam ahead. I wanted to get the product on the market fast before Coke, or someone else, could rip us off. To add further pressure, I got it in my head that we needed to launch this product nationwide in time for the next Super Bowl, so we could promote it during one of the biggest events of the year.

It came time to get the bottlers involved, and when I presented the idea to the Pepsi-Cola Bottler Association, I was so confident that I thought they'd probably stand up and applaud by the end of the meeting. They did like the idea, but they had a concern. "David," they said, "there's a problem with this product. It doesn't taste enough like Pepsi."

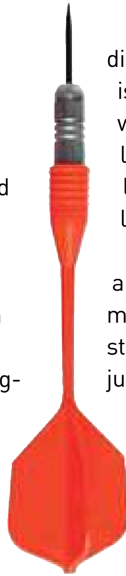
They were right, but I brushed off the concern. It wasn't supposed to taste exactly like Pepsi. It was supposed to have a lighter cola flavor. It was supposed to appeal to a new demographic. →

Yeah," they said, "but you're calling it Crystal Pepsi. If you call it Pepsi, people will expect it to taste like Pepsi. You need to make it taste more like Pepsi."

Sometimes our best assets can also become our blind spots. When I look back, I now realize I never really listened to the criticism because I figured I was the marketing expert and they just didn't get it. I went ahead and launched the product anyway. And we did it so fast that we had a small quality-control problem. The product tasted great in the lab but had a bit of an aftertaste in certain markets.

Well, the problems with Crystal Pepsi became sort of legendary. *Saturday Night Live* did a skit in which they poured Crystal Pepsi onto a pile of mashed potatoes, implying that it tasted like gravy. *Time* magazine later did a story on the top one hundred marketing failures of the twentieth century; Crystal Pepsi was in the top ten.

Perhaps the most amazing part of the story is that I didn't get fired as a result of all this. The reason I didn't is because we actually made money on it. Everyone wanted to try it, and it was the first Pepsi product ever launched at a premium price. The bottlers treated it like a novelty product that wouldn't be around that long, and they were right.



What kills me to this day is that I still believe it was a good idea. If I had just listened to the people telling me that the product wasn't right yet, Crystal Pepsi might still be on store shelves as a big-selling brand. If we had just worked out the problems with the flavor quality in our plants. . . . If we had just built in a few more notes of Pepsi-Cola flavor. . . . If I would have just slowed down and not been such a heat-seeking missile . . .

It was the biggest missed opportunity of my career, and after that miscue, I never wanted to be left wondering "what if" again.

What Do You Value?

BY KEVIN AND JACKIE FREIBERG WITH DAIN DUNSTON

Corporate culture is an expression of the company's personality and genetic makeup—its DNA. Culture reflects the rites, rituals, traditions, and values that both describe and instruct how you handle big ideas, treat big thinkers, take extraordinary risks, and respond to dramatic change. Culture isn't something that is peripheral or collateral to the business—it's your very way of doing business. Thus, culture touches everything, influences everything, and affects everything.

Every time you step through fear, ridicule, and resistance and demonstrate dogged determination to pursue your dream, you free the organization to attempt the seemingly impossible. Every time you examine the intersection between trends, face the brutal facts of reality, and engage in opportunity-led innovation instead of crisis-led reaction, you declare war on complacency. Every time you push, prod, and cajole people into going beyond a good solution to find a better solution, you send a message to the entire organization about the power of elegance. Every time you ask a question about how a potential solution will bridge the gap between the user's experience and the cost targets you've established, you challenge the organization to climb higher up the ladder of creativity. And every time you refuse to compromise the user's dignity in order to cut a corner, you communicate what you value.

If you forget to do all these things, you still build a culture. It's just that you build a culture of disengagement, a culture of mediocrity, a culture that serves as a boat anchor to any forward progress you try to make.

■ KEVIN and JACKIE FREIBERG are San Diego-based management consultants. DAIN DUNSTON is a Texas-based consultant. From *Nanovation: How a Little Car Can Teach the World to Think Big & Act Bold* (Thomas Nelson). ©2011

We Are Not Consumers

BY MARA EINSTEIN

CALL ME MOTHER, DAUGHTER, TEACHER, FRIEND, SISTER, OR CITIZEN. What I will not be called is a consumer, and neither should you be. If we continue to name—or, worse yet, define—ourselves by what we purchase, we have little chance, if any, of getting out of the buy-use-dispose, buy-use-dispose cycle of consumer behavior. Thinking of ourselves as "consumers" is a vestige of the age of mass marketing and makes no more sense today than expecting the entire family to sit down together at 8 p.m. and watch an episode of *The Brady Bunch*.

Thankfully, there are inklings that marketers have figured out that this label no longer applies. Coca-Cola's Tom LaForge gets it partly right. He recognizes that people are, well, people and that macro-forces are changing business to be more "human-centric," right-brain-oriented (that is, more holistic), and environmental- and social-justice-minded: "Today we have to talk to [customers] as consumers, environmentalists, community members and citizens." *Consumer* is still in the mix, but at least it's being recognized as just a small part of who we are and not the sum total of our being.

That change won't come easy is evidenced in a presentation I saw given by Neighbor Agency, a marketing firm that works in the sustainability space. The opening slide said: "Rewriting the Rules of *Consumer Engagement." The asterisk references Rule 1: Let's stop calling people consumers. But if you are going to stop calling people consumers, you also have to stop calling the process "consumer engagement."

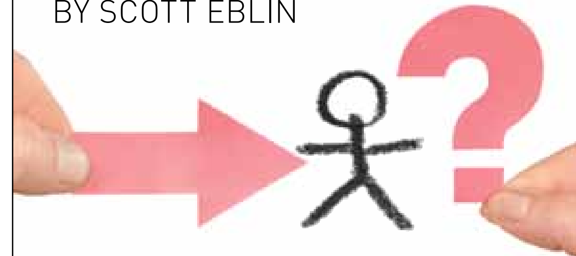
Will companies ever cease branding products and then pushing their meaning on us? Probably not. But as both of these examples attest, marketers are beginning to think of us as living, breathing human beings and not just targets, demos, or consumers. Doing this may help motivate companies and clients to make more sustainable and more socially conscious products.

Even as companies move to align their businesses with social needs, we must encourage them to extract the social cause from the corporate marketing. This is not to say that corporations shouldn't do good—they absolutely should. In fact, they have to, for competitive reasons. What I am suggesting, however, is that the good they do should not be tied directly to product sales. Become more sustainable through better operations management, allow employees to take time off to volunteer, donate product to local causes, hold charity events, whatever makes sense for the company. Just don't make us buy a product in order for that to happen.

MARA EINSTEIN is associate professor of media studies at Queens College. From *Compassion, Inc.: How Corporate America Blurs the Line Between What We Buy, Who We Are, and Those We Help* (University of California). ©2012

Who Goes There

BY SCOTT EBLIN



A big part of my work as a coach involves working with high-potential leaders in workshops, keynotes, and webinars. One of my favorite questions to ask these audiences is, "How many of you think of yourselves or have been referred to by others as the *go-to* person?" Usually, about every hand in the room goes up. I asked that question as a flash poll in a webinar recently, and 98 percent of the four hundred-plus managers and executives on the line affirmed that they are the go-to people.

It's not surprising, really. Most people who end up in leadership roles have built a reputation for being go-to people.

So what's wrong with that? Nothing at all when you're on your way up. Being the person who's known for getting stuff done is a great way to build your reputation and career. Chances are, though, that you're eventually going to reach the point at which operating as the go-to person is simply no longer sustainable. The scope of work gets too broad and complex for one go-to person to take things over and heroically save the day.

To grow as a leader, you have to let go of being the go-to person and pick up the profile of being the person who builds a team of go-to people.

SCOTT EBLIN is an executive coach, speaker, and author of *The Next Level: What Insiders Know About Executive Success*. From Next Level Blog.

Where Empathy Falls Short

BY STEVE TOBAK

THE WAY LEADERSHIP GURUS AND EXECUTIVE COACHES TALK ABOUT EMPATHY, you'd think it's the be-all, end-all, and cure-all for leaders and their shortcomings. It's not. The reason is simple: Before empathy can even enter the picture, you have to understand yourself. That, to me, is the primary issue.

Don't get me wrong—I have nothing against empathy. Empathy's a good thing. But in a lot of cases, beating yourself or someone else over the head with a "get empathy" mantra isn't going to do any good because:

- Some people simply don't speak that language. Sure, they can define it, but they can't do it because their minds aren't wired that way. It's true of far more leaders and managers than most people realize.
- Leadership or management issues involve people and interactions. The problem is that you can only control at most one side of the equation, you don't know which side needs help, and if it's the other guy, can you even empathize with someone who has no empathy for you?

TO HAVE EMPATHY, YOU FIRST HAVE TO KNOW YOURSELF.

To surmount those obstacles and get through—either to yourself or someone else—you need to speak the language of expectations and assumptions.

You see, on some level, you have more expectations—of yourself, your boss, employees, co-workers, customers, vendors, everyone that matters—than you realize. Everyone does. Lack of awareness of faulty, unreasonable, or misaligned assumptions results in a high percentage of unnecessary workplace issues.

In other words, you expect certain things to happen or people to behave in certain ways. And when they don't—since people do, in fact, have free will—that creates problems. All sorts of problems.

For example, ever have trouble connecting with your boss, a co-worker, or an employee? Of course you have. Well, I have, with a former CEO. I tried putting myself in his shoes. Being empathetic, or so I thought. But that didn't work—on his end, my end, or both—I'll never know which.

What did work was realizing that I expected him to manage me the way I managed others. Don't say "duh." So many people do that without even realizing it. For whatever reason—maybe I found it convenient to just write him off as a micromanager and throw up my hands in frustration, who knows—that's what happened.

Once I realized that I shouldn't expect him to be anything but himself, I became open to giving him what he needed. And once I did that, he became more comfortable, and we settled into a good relationship.

Now, I know some people will lump that and everything else under the "empathy" banner, but that's not how it works in a practical sense. Instead of putting myself in his shoes, I really needed to think of myself and my own expectations. Any good shrink will tell you that the solution for narcissism is for the narcissist to first focus on himself. Ironic, isn't it?

Anyway, here are five tips for improving workplace relationships that don't involve empathy and work regardless of which side of the equation you're on:

Before you put yourself in his shoes, try your own on for size. Ever catch yourself saying or thinking, "I can't figure him out" or "what the hell is he thinking?" The question to ask yourself is what the hell are you thinking? Seriously.

Challenge your own goals, assumptions, and expectations. Chances are you walked into an interaction or a meeting with certain goals or expectations. When it didn't go as planned, your reaction likely contributed to the issue or conflict. The problem is with the setup—i.e., the expectation, not the interaction, per se. Think about it.

Don't assume anyone thinks, feels, or behaves as you do. Ever hear yourself say, "why would anyone ____ (fill in the blank: act, manage, run a business, dress, raise a kid) that way?" You can't ask a more narcissistic question. Why in the world would they not? They're not like you, and assuming they are is dehumanizing and childish.

Don't beat yourself—or anyone else—up. Stay positive. This is not a personal failing on either your part or anyone else's. If you build things up in your head, you'll only make matters worse. Besides, you'll never achieve any kind of perspective when you're angry, upset, or panicky.

If it's a chronic problem, seek objective counsel. Seriously, if this sort of thing happens to you a lot, you're probably not even aware that you're setting yourself up for all kinds of problems by setting expectations for interactions that aren't reasonable. Get some help; it'll improve your relationship immensely.

The bottom line is this: The drumbeat of a leadership fad du jour drowns out the nuances that make it work. To have empathy, you first have to know yourself. If you don't do part one, you'll never get to part two. For some, that takes a lifetime.

■ STEVE TOBAK is a marketing and strategy consultant based in Silicon Valley and a former senior executive of a number of public and private companies. From "The Corner Office," at http://blogs.bnet.com/ceo.

Don't Have All The Answers

BY CHRIS BARÉZ-BROWN

One of my client companies has a "just in case" culture. What that means is that there are people staying in the office till 10 p.m. or even midnight preparing PowerPoint presentations, "just in case" they are asked a particular tricky question.

This creates the most toxic conditions in business. The message that goes out is that if somebody senior asks a question and you don't know the answer, you are in deep trouble. This drives a culture of fear and supports the premise that one person can have all the answers.

This is crazy. The world is so dynamic that even trying to have 1 percent of the answers in your head would make your brain explode. The idea of being so smart that you can know everything and predict the future is fantasy.

Every business needs a group of leaders who can deal with ambiguity, change, and surprises. The nature of the business environment means you can never have all the answers; the best leaders are the ones who are resourceful and creative enough to know where to find them when necessary.

The idea of leaders being geniuses is actually destructive—and the impact filters through to all employees, who start believing that to be a leader you have to have all the answers (an impossible goal). It also means that nobody is prepared to share a half-formed thought that might fuel new ideas. Two heads are always better than one, so imagine how good linking together the brainpower of a while organization must be. Whenever someone is too scared to share their thinking early, a potentially extraordinary breakthrough is stillborn.

So be confident that you can't always know the answers, and don't expect your people to. It's simply unreasonable.

Don't be afraid to say you are unsure. Share your worries and concerns about predicting the future. Be honest when you are lost and ask for help; doing so will encourage a more honest conversation with the whole business.

You will be saying, "What we value are people who are curious, intuitive, and smart"—people who can find out their own answers and make sense of this beautiful world.

■ CHRIS BARÉZ-BROWN is founder of Upping Your Elvis, a U.K.-based management consultancy. From *Shine: How to Survive and Thrive at Work* (Portfolio/Penguin). ©2012

The Simple Decision Test

BY MICHAEL ROBERTO

I heard a common complaint from a mid-level executive today: "It's really hard to get closure on any decisions around here." I wondered whether the chief executive understood the level of frustration. Was the CEO the problem, or were decisions getting bogged down in the bureaucracy, even before getting to the top? In many cases, decisions get derailed by silo rivalry, dysfunctional team dynamics, and leaders who are conflict-averse. As a result, people can't seem to achieve closure on key decisions.

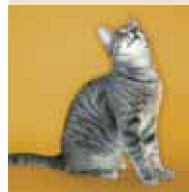
What should a chief executive do to determine if this closure problem is slowing down his or her firm's ability to compete effectively in the marketplace? I believe they should occasionally slice through the organization's layers and ask a simple question of mid-level managers: "Are you waiting excessively for certain decisions to be made by senior executives?" If the answer is yes, then the CEO must trace the flow of a few sidetracked decisions to diagnose the problem. If many mid-level managers express the same frustration, then the CEO knows that the firm has a broader cultural problem; it's not just a few poor leaders here and there.

■ MICHAEL ROBERTO is a professor of management at Bryant University. From his blog, at http://michael-roberto.blogspot.com.

Making Up For a Lack of Brilliance

BY ANDY BOYNTON AND BILL FISCHER WITH WILLIAM BOLE

CONVENTIONAL WISDOM HOLDS THAT THE CLEVERER YOU ARE, the better your ideas. But in our experience the cleverest people—important as they are in an organization—have a tendency to overestimate their brainpower. Without the added component of curiosity, they stick to their success formula and may not go hunting for better ideas. In other words, they're just not interested enough.



Curiosity, on the other hand, can more than make up for a lack of brilliance. No less a trailblazer than Albert Einstein once made the disarming comment, "I have no special talents. I am only passionately curious." This is often the most striking characteristic of a highly successful person. Consider this firsthand description of Scott Cook, founder and CEO of Intuit, by *Inc.* writer Michael S. Hopkins: "Listening, he seems to forget himself. He seems composed of pure curiosity. He's like a man who always expects that the next thing someone—anyone—tells him might be the most surprising and enlightening thing he's heard. He listens without blinking. He learns."

A curious mind is on the lookout for surprises. It embraces them and finds a way to learn from them. Such thinking has a leavening effect on how we look at things, because when we are curious, we are less likely to take something for granted. We look at an ordinary happening and see something extraordinary. This opens a path to innovation, partly because an ordinary idea in one setting could prove remarkable if applied to another setting.

■ ANDY BOYNTON is dean of the Carroll School of Management at Boston College. BILL FISCHER is a professor of technology management at IMD. WILLIAM BOLE is a journalist and a research fellow at Boston College's Winston Center for Leadership. From *The Idea Hunter* (Jossey-Bass). ©2011

Dumb Is the New Smart

BY MIKE MYATT

How dumb is your business? At the risk of drawing the ire of corporate elitists, I submit to you that the dumber your business is, the better off you are. The truth is that great companies are those that can thrive and prosper in the absence of sophistication. As odd as it sounds, businesses that are not dependant on smart talent, capital, or technology can scale faster and easier than those businesses burdened with the aforementioned dependencies. If your business requires smart money (which equals expensive money), or your competitive advantage is tied to a superhero key employee, or your business is built around maintaining a technology advantage, you have more weakness in your business model than you do strengths.

Let's drill down on the talent argument a bit deeper. I'm not suggesting for a moment that you don't want to hire tier-one talent. However, I am clearly stating that you don't want to *depend* on tier-one talent. Talent is clearly a plus as long as it is a value add and not a business requirement. If your company's long-term business plan requires the acquisition or retention of the über-employee, then your business not only has a risk-management issue—it is likely not scalable. If your company can't be operated by mere mortals, you need to reexamine your business logic.

The dumb factor not only applies to talent, capital, and technology—it extends throughout the entire value chain. It applies to your branding, marketing, supply chain, and ultimately to your customer base. If your customer has to be a rocket scientist to understand your value proposition, you have problems. If your employees cannot simply and effectively explain what you do, you have problems.

The last point I want to cover is that of growth as it relates to dumb businesses. Both scalable and non-scalable businesses can achieve growth and sustainable success. However, it is important to understand the distinction between the two. While a business cannot scale without growth, a business can grow without being scalable. If your business model requires implicit customer growth, your business might grow for a time period, but it isn't scalable.

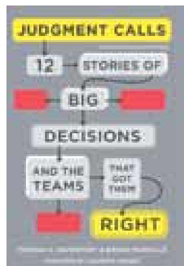
The moral of this story is that while sophistication and complexity often go hand in hand, they don't have to be synonymous. Focus on driving down the most complex tasks to the lowest levels of the organization, and then leverage with talent, capital, and technology while avoiding the creation of margin-eroding dependencies.

MIKE MYATT is author of *Leadership Matters . . . The CEO Survival Manual* and managing director and chief strategy officer at N2growth, a Delaware-based professional-services firm. From the N2growth Blog, at www.n2growth.com/blog.

JUDGMENT CALLS

12 STORIES OF BIG DECISIONS AND THE TEAMS THAT GOT THEM RIGHT

By Thomas H. Davenport
and Brook Manville
Harvard Business Review Press, $30.00



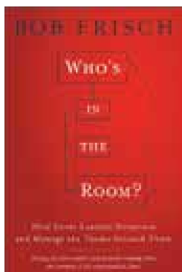
"Even the greatest of leaders can't get out of the way of their own egos," write Davenport and Manville in explaining their focus on Great Organizations rather than, as similar books invariably do, on Great Men. "We offer this book as an antidote for, and even the counter to, the Great Man theory of decision making and organizational performance." *Judgment Calls* begins strongly, with an introduction laying out a new paradigm of decision-making that uses deliberation, data, and the wisdom of crowds—not gut feelings. And the authors make a good case for using stories: "[D]oes the world really need another management framework?"

The twelve cases—"stories of good decisions because we think the world needs some good examples to emulate"—are unfamiliar, always a pleasant surprise. But they're not all that effective in driving home the introduction's arguments; the stories, stuffed with acronyms and names and nonlinear narratives, don't address decisions so much as rethought organizational processes, and the "new approaches to judgment building" are surprisingly hard to extract. Perhaps the murkiness is inevitable: As the authors note, we look to Great Men partly because their stories, however oversimplified, make for more compelling narratives; in offering an antidote to that paradigm, Davenport and Manville leave readers looking for a few Great Men. —MATTHEW BUDMAN

WHO'S IN THE ROOM?

HOW GREAT LEADERS STRUCTURE AND MANAGE THE TEAMS AROUND THEM

By Bob Frisch
Jossey-Bass, $29.95



"At the heart of every organization chart lies a myth," begins Frisch in this tell-it-like-it-is book. But the author doesn't go on to reveal anything you don't already know. In fact, it's not so much *what* he has to say but that he says it at all that is intriguing. There's a perception, Frisch claims, that directly beneath the CEO is a team of anywhere from five to fifteen people "presumed by most managers to spend their time together discussing profound thoughts and making all the organization's truly momentous decisions."

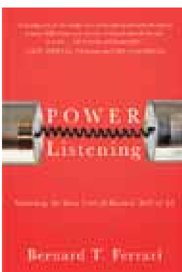
"The reality is that they don't," writes Frisch, a managing partner at the Strategic Offsites Group. But the CEO (and his direct reports) wants you to think they do. As you know, a seat at the table doesn't guarantee a role in decision-making; despite forming executive committees, many CEOs rely on only a few individuals for advice. Meanwhile, consultants, coaches, trainers, and other advisers typically ignore this well-known but rarely acknowledged detail by suggesting ways to fix apparently dysfunctional C-suites. Frisch, on the other hand, argues that senior management teams are "not well suited for making most major decisions."

As an alternative, he suggests creating (and then disbanding) numerous teams around specific projects or decisions. This is hardly a novel idea, but it's still a good one around which Frisch offers various real-life examples. It's frustrating, though, that his sympathies appear to rest exclusively with the chief executive, the only person to retain the same stature regardless of organizational structure. Furthermore, Frisch thinks it's the C-suite, as well as others in the organization, who should adapt to the CEO's leadership style of seeking input only from his unofficial "kitchen cabinet" of executives. In doing so, he turns what ought to be nothing more than an explanation into a prescription that a CEO not change his own behavior. Perhaps that's understandable: At some companies, it's probably harder for the one person at the top to alter how he works than for everyone else to do so. —VADIM LIBERMAN

POWER LISTENING

MASTERING THE MOST CRITICAL BUSINESS SKILL OF ALL

By Bernard T. Ferrari
Portfolio, $25.95



Power Listening is refreshing for what it's not: another self-help book that purports to unlock whatever supposed secrets remain to effective public speaking. Such manuals generally assume that your audience consists of thirsty vessels just waiting to be filled with your influential words, if only you could say the right thing in the right way. Hold on, Ferrari says. Actually, listen up! The former twenty-year McKinsey veteran claims that listening demands more effort and is more crucial than

talking. Unfortunately, we're so enamored with our own voices that we assume that "listening can be a time waster, rather than an effective means of advancing the ball."

Ferrari successfully spins old platitudes into new insights, and you'll smirk in agreement as he describes different types of listeners, including the Opinionator (oftentimes a CEO), who listens to others mainly to assure himself that his ideas are right; the Grouch, who *knows* others' ideas are wrong; and the Answer Man, who "starts spouting solutions before there is even a consensus about what the challenge might be." The author illustrates these characters, as he does many other points in the book, with lively examples and anecdotes.

While many of the recommendations are commonsense—"respect your conversation partner," "challenge all assumptions"—their value lies in the notion that few of us seem to heed such advice. Moreover, the further you get into the book, the more you realize that it's not really about listening after all. Rather, *Power Listening*'s main strengths are its suggestions for how to engage in meaningful conversations—that is, by becoming a better listener, you become a better speaker too. Without any neuroscience mumbo-jumbo or treating readers like kindergarteners, Ferrari makes valuable, valid points. Listen to him. —V.L.

THE DAILY YOU

HOW THE NEW ADVERTISING INDUSTRY IS DEFINING YOUR IDENTITY AND YOUR WORTH

By Joseph Turow
Yale, $28.00

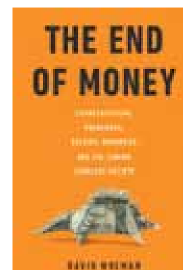
Every move you make, marketers are watching you, collecting data, and deciding whether you're a "target" or "waste" to them. Such are the terms that companies use to describe whether someone is a potential consumer for their products or services. Each click online sends a message to advertisers about who you are and how much you matter, explains Turow, a communications professor at the University of Pennsylvania. "Big deal!" some may say, shrugging their shoulders. Others, like Turow, recognize just how big it is. By taking us on a journey that begins with a click and ends with ads allegedly perfectly targeted at us, the author illuminates the many ways in which companies gain, analyze, and use information about us.

The Daily You isn't your typical diatribe against incursions on privacy. Rather, it's a detailed description of the Internet's effect on advertising. So detailed, in fact, that there are moments in the book when you forget the point Turow is trying to make—that today's media environment reflects diminished consumer power. He doesn't quite make it. Rather, he threatens the reader with the "ominous implications" of online marketing, but in his drily written account, hazards often turn out to be sheep disguised as wolves. For example, in explaining how companies such as Facebook and Google share their data, Turow never clarifies how the process *negatively* impacts users in your daily life. And so, ironically, the book comforts more than scares. After all, if the unknown is what distresses us most, the author's behind-the-scenes account reassures that the sky is not falling. —V.L.

THE END OF MONEY

COUNTERFEITERS, PREACHERS, TECHIES, DREAMERS—AND THE COMING CASHLESS SOCIETY

By David Wolman
Da Capo, $25.00



From page 5—introducing a Georgia pastor who insists that a cashless society is part of Satan's plan—journalist Wolman signals that his book won't be a dry examination of the meaning of money. And he embarks on a brightly written exploration of all things monetary, from a brief history of currency to a report on counterfeiting today to a bulletin from post-crash Iceland. He discusses the lure of gold and "the eco-costs of cash."

The End of Money is partly a chronicle of the author's year avoiding cash, during which he is surprised to see his pledge to shun bills and coins "mutate into a genuine aversion." Money, he learns, is dirty—really, *dirty*, with all kinds of germs—and the knowledge exacerbates his annoyance with useless nickels and pennies. He speaks with anti-cash activists and envisions a near-term future in which cash is genuinely optional.

Wolman is at his best when reporting—from, for instance, the Digital Money Forum, which "proved to be just too conferencey, with its drip, drip, drip of PowerPoint presentations, impenetrable corporate jargon, and technical speak." He doesn't aim to be comprehensive or definitive, so the breeziness and anecdotal format is pleasurable rather than scattershot. But the book is both entertaining and provocative, and no reader will get to the end without—perhaps for the first time—thinking about what's in her wallet. —M.B.

TACY M. BYHAM is VP of executive development for Development Dimensions International's Executive Solutions group.

***MIDDLE MANAGEMENT* IS AN AWFUL PHRASE. NO CHILD DREAMS OF GROWING UP TO BE A MIDDLE MANAGER. NO CHILD HAS EVER DREAMED OF GROWING UP TO BE A MIDDLE MANAGER.**

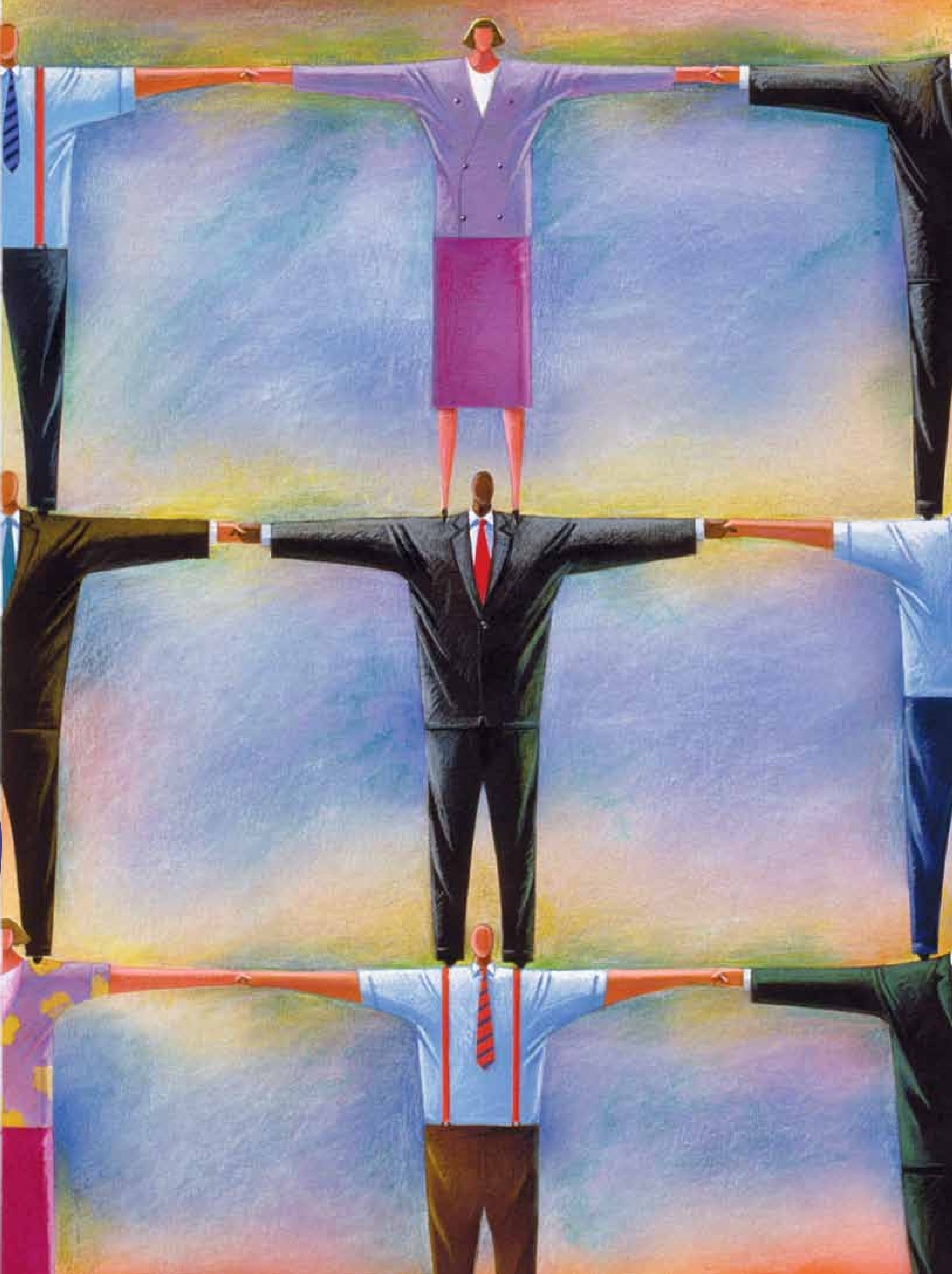
That doesn't mean middle management has always been denigrated. For most of the history of large companies, middle managers were seen as vital—indeed, they were the people who basically ran the place. Rising up the corporate ladder, rung by rung, offered opportunities for increased responsibility and, importantly, put countless businessmen and their families on a path to the upper middle class.

But in recent decades' delayering efforts, authors and consultants depicted supervisors as superfluous bureaucrats whose jobs consisted of putting roadblocks in the way of frontline workers, and companies responded by firing whole swathes of mid-level organization men. Of course, workers still need supervision and direction and management, so companies still have middle managers, and as before, they're the ones who make everything happen. Organizations lean heavily on their mid-level leaders to execute strategy, drive results, and get work done. As MIT's Jonathan Byrnes rightly observed, "Regardless of what high-potential initiative the CEO chooses for the company, the middle management team's performance will determine whether it is a success or failure."

WE ASK TOO MUCH OF MIDDLE MANAGERS.

FLATTENED

BY TACY M. BYHAM



In fact, it's not a reach to say that as organizations vie for market share, profitability, and even viability in an ever-increasingly competitive global economy, their middle managers symbolize these challenges. In *What the Dog Saw and Other Adventures*, Malcolm Gladwell makes a strong case for why mid-level leaders are a direct reflection of their organization's frenetic state: "You don't start at the top if you want to find the story. You start in the middle because it's the people in the middle who do the actual work in the world."

What of that "story" to which Gladwell refers? It's one of stress, neglect, and struggling to adapt to changing roles and expectations, as supervisors work to do more with less in an increasingly complex and demanding environment. It's also one that's fraught with risk for those very organizations that lean so heavily on their middle managers.

MID-LEVEL MANAGERS IDENTIFIED THEIR TOP "HEADACHES" AS INSUFFICIENT COMPENSATION, HAVING TOO MUCH WORK TO DO WHILE GETTING TOO LITTLE CREDIT, POOR WORK/LIFE BALANCE, AND THE LACK OF A CAREER PATH.

THE NEGLECTED LEVEL

How bad is the pressure-cooker environment in which middle managers operate today? Just ask them.

One manager I know has seventy-two direct reports and is responsible for conducting performance reviews for all of them.

Another told me that being insanely busy is a "badge of honor" in her organization and that, in conversation, mid-level leaders try to one-up each other by cataloging their back-to-back meetings, international conference calls in the middle of the night, and hundreds of daily e-mails.

Then there's the colleague of mine who was one of a group of middle managers in an organizational function. Over time, repeated downsizings thinned the ranks of this group until she was the only manager left to handle all of the work that had previously been entrusted to many. The demands were so great and the expectations so unreasonable that she *asked* to be downsized.

The discontent in the mid-level ranks isn't just anecdotal. In a 2007 Accenture study, mid-level managers identified their top "headaches" as insufficient compensation, having too much work to do while getting too little credit, poor work/life balance, and the lack of a career path. A 2010 study by DDI and Human Capital Institute describe the emerging phenomenon of the "Gloom Spiral," which results from mid-level leaders growing increasingly stressed as they struggle to do more with fewer staff, and their staff, in turn, growing more stressed and less engaged. This same study offered evidence: 41 percent of HR leaders indicated that the engagement level of their organization's mid-level leaders had "dropped noticeably" over the previous eighteen months, against just 14 percent who said that mid-level leader engagement levels had increased either noticeably or substantially.

Even following a quarter century of underappreciation, this is a notable decline. And though organizations have begun to understand the critical importance of their mid-level leaders, this newfound focus arrives against a legacy of neglect. Traditionally, scarce training dollars have flowed toward maximizing the performance of large populations of frontline leaders, and senior-level retirements have driven a sustained focus on the need for executive development. The middle, meanwhile, has tended to be the overlooked level.

HOW DID WE GET HERE?

Over the past several decades, two important trends have shaped middle management. One is the flattening of organizations, a phenomenon that has been in motion for decades. Where once multiple management levels defined organizations, downsizings, reengineering efforts, and reorganization pruned management down to a bare-bones structure in which middle-management roles are defined by a greater span of control and more responsibility. This has made the middle manager's job more difficult than at any time in the past. (Further complicating any attempt at fully understanding the middle manager's plight: Those who can be classified as a middle manager fall across a wide swath, from a general or district manager, who may lead just a handful of frontline leaders, to an operational leader managing multimillion-dollar budgets and several hundred employees—and all points in between.)

For its outward appearance of corporate inefficiency, the organizational structure of old, with multiple leadership levels between the front lines and the executive suite, represented a favorable system in many ways. Consider the rising leader of decades ago who would progress slowly and purposefully up the organizational ladder. From an initial frontline

leadership position, he or she would be promoted into a slightly higher-level leadership job with more responsibility. The junior executive would be in this position long enough to master it and build a toolbox of leadership skills. When the time was right and a position was open, the leader would move upward yet again, to another job that offered more responsibility and more opportunities to grow, build capability and competence, and properly prepare for the next promotion when the time arrived.

This structure, with its multiple levels, which in time many would come to see as wasteful and unnecessary, was, in fact, an effective approach for preparing leaders for the executive suite. Not everyone advanced that far up the chain of command, of course. But those who did usually had, by the time they rose to the top, developed a strong base of skills, experience, and knowledge.

Those days are long over. In their place we have flatter organizations in which leaders are too often promoted in sink-or-swim fashion and expected to begin producing results quickly. Meanwhile, expectations remain sky-high for the amount and complexity of work that needs to be done by the leaders operating at the amorphous, wide-ranging "mid-level"—even though organizations provide little in the way of additional development or support.

Predictably, as this arc of development and growth has been removed, today's mid-level leaders themselves are pessimistic about leadership skills in their organizations. In DDI's Global Leadership Forecast 2011 study, only 34 percent of respondents rated leaders in their organization as good or excellent. This was lower than ratings provided by senior leaders (43 percent) and executives (46 percent), who viewed their organizations' leaders in a far more positive light.

Then there's the second trend: the ever-increasing complexity characterizing organizations as they strive to compete, grow, manage costs, innovate, and, in some cases, even survive. Gone are the days of tight centralization, straight-line supply chains, and stable markets impervious to advances in technology and globalization. Mid-level leaders are now called upon to lead increasingly geographically dispersed teams, operate within a matrix with blurred accountabilities and dotted-line reporting relationships, and take on a greater share of the work required to execute strategy and meet customer needs. That means that their organizations are counting on them as never before.

As one senior HR manager told us, "Middle managers have a high organizational impact. We expect a lot from them: They need to understand a P&L statement, be proficient in certain processes and procedures, lead and manage people effectively, and if needed, roll up their sleeves and do the work themselves. We require them to execute organizational strategy, develop new leaders, and produce bottom-line results. Often resources are limited, but the expectations remain just as high."

The convergence of these two trends has put the squeeze on mid-level leaders. And this represents a significant risk for organizations.

Given the flatter organizational structures and the demands of an increasingly complex and competitive global economy, the need for strong, effective middle managers has never been greater.

Mid-level leaders who feel overwhelmed, overworked, and underappreciated may become disillusioned with their jobs, disengaged from their teams, and fail to do all of the important things they are counted on to do. Inevitably, when middle managers become disengaged there is a higher risk of them turning over. In fact, in a *McKinsey Quarterly* survey, a minority of middle managers—just 36 percent—said that they were very or extremely likely to be with their current employers in two years.

Even those loyal to their organization aren't necessarily loyal to their jobs. In a DDI global survey of 2,001 mid-level leaders, 54 percent said they would take a demotion to a non-leadership role for the same amount of money. What's more, a significant portion of mid-level leaders have apparently had enough: 16 percent said they would take a demotion to a non-leadership role even if it meant taking a cut in pay.

The bottom line is that, given the flatter organizational structures and the demands of an increasingly complex and competitive global economy, the need for strong, effective middle managers has never been greater. Yet even if a mid-level manager is committed to staying in the job, that doesn't mean he or she is effective.

UNDERSTANDING THE SKILL GAP

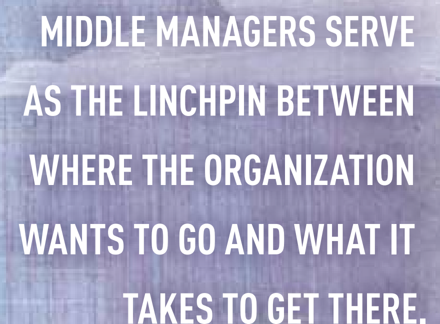
To understand what we need our mid-level leaders to be, we need to be specific about what it is that we are asking them to do. Mid-level leaders operate in a sort of organizational limbo: They are too low on the organizational totem pole to formulate or set strategy, and, in many cases, they also lack a clear line of sight to the front lines, and the ability to monitor and fully understand customer needs and preferences firsthand. This isn't to suggest that what middle managers are expected to do isn't important—it is, as they do much of the managerial grunt work required for execution. Their jobs often entail critical responsibilities such as driving results, allotting resources, coordinating manpower, negotiating with vendors and partners, troubleshooting, promoting efficiency, and keep a close eye on costs.

In this way, middle managers serve as the linchpin between where the organization wants to go and what it takes to get there. The expectations they are expected to live up to confirm this.

And those expectations are changing. As organizations look to boldly move forward into an uncertain future, they need their mid-level leaders to be innovators and change agents. Specifically, mid-level leaders must be able to address four key challenges: drive performance in a changing world, manage horizontal integration in a complex organization, lead and develop talent, and make tough decisions.

When the leaders in the DDI mid-level survey were asked about the responsibilities on which they spend most of their time, what emerged was a contrasting picture. Among the roles they devoted the most time to were resource allocator, negotiator, executor, and navigator. Talent advocate, one of the most important roles organizations are looking to their leaders to fill, finished a distant eighth (see “Big Disconnect?”, page 20).

Further evidence that leaders are out of sync with what their organizations need them to do comes from DDI's 2011 leadership forecast. The five skills that leaders identified as the ones needed most to drive business success over the next three years were driving and managing change, identifying and developing



future talent, fostering creativity and innovation, coaching and developing others, and executing organizational strategy. Yet when asked to rate their own effectiveness in each of these leadership skills, 40 percent or more of leaders conceded ineffectiveness in at least one skill.

Why the disconnect? One reason is that organizations are driving mid-level leader behavior by continually trying to do more with less. In the mid-level survey, nearly 70 percent of mid-level leaders said that their work stress had increased over the previous 18 months, due to larger personal workloads and increased pressure to succeed.

And it would appear that they lack the skills to take it all on. When these leaders were asked if they feel they have the leadership skills they need to succeed in their role, just 10 percent said they feel "well-prepared."

WHY THE DISCONNECT?

One reason is that organizations are driving mid-level leader behavior by continually trying to do more with less.

HOW TO TURN THE TIDE

The good news is that organizations are waking up to both the criticality and the difficulty of leading at the mid-level. A vice president in organizational effectiveness at a financial-services institution captured this growing awareness perfectly when she told us, "We must provide [our mid-level leaders] with support, resources, and the development they need to deliver. We know if we don't do this, we won't be able to deliver on our business strategy."

But what about providing that support, resources, and development? While some of the steps organizations need to take and the things they need to consider may be clear, others may be less obvious:

Differentiate between high-potentials and high performers—and invest in both. High-potential leaders, of course, represent the organization's strategic future. But a far larger and arguably more important population is those mid-level leaders who can be classified as "high performers." These are the middle managers on whom the organization counts to excel in their roles indefinitely, not as a means to preparing them to step up to the next level.

While high-performing middle managers typically won't be good candidates for the limited number of special development opportunities that must be reserved for high-potentials, they do warrant a holistic development approach to make them optimally effective.

This differentiation also needs to extend to assessment. While high-potentials may require the deep assessment that can be provided only by a day-in-the-life assessment center, high performers also will need to be assessed to determine their strengths and development needs, but not in as much depth. Multirater (360-degree) tools are a good solution, as they can be administered to a large population of leaders at a relatively modest cost. Regardless of how the data is gathered, what matters is that the company is assessing middle managers to provide the data and insights needed to guide development planning for the individual as well as the mid-level leader population.

Take a business/role/self approach to development. While, like frontline leaders, mid-level leaders must develop strong leadership skills, their development should be grounded in a business/role/self approach that emphasizes both personal growth and business contribution. Such an approach takes into account the need for a comprehensive understanding of the business, total clarity about the leader's role within the organization and the contribution he or she needs to make to support the organization's strategic priorities, and a realistic understanding of oneself in terms of relevant experiences, capabilities, and personality factors.

This means that while a comprehensive competency-based leadership-development curriculum is a great start, it won't be enough to address the entire business/role/self dynamic. Especially important is emphasizing the view of development as a "learning journey" that treats the job itself as a practice and experimentation lab, where skills and knowledge are applied repeatedly and translate into sustainable behaviors. (The 70/20/10 formula is a good rule of thumb, where 70 percent of learning happens on the job, 20 percent comes from coaching or mentoring relationships, and 10 percent results from formal development programs.) Of course, leaders need to learn and practice the right skills, whether they are those required to coach, challenge other's thinking, partner with other business units, or drive team-member development.

Mentoring is another approach that can support development, and when the mentor is a senior leader within the organization, the business and role aspects can be emphasized.

BIG DISCONNECT?

Multiple studies have identified the most critical skills that leaders need now and for the future. Comparing this list against the hats mid-level leaders say they wear most frequently reveals a big disconnect between the strategic roles that organizations need their mid-level leaders to fill, and the tactical roles they actually are spending most of their time doing.

The Skills Leaders Need Now and for the Future

Managing change
Fostering innovation
Developing talent
Executing strategy
Coaching and developing others

The Hats Middle Managers Wear Most Frequently

Resource allocator: 19%
Negotiator: 17%
Executor: 15%
Navigator: 10%
Change driver: 9%
Innovator: 9%
Global thinker: 7%
Talent advocate: 3%

(Note that mid-level roles have changed so much so fast that a veteran top executive may be out of touch with the day-to-day reality of the contemporary middle manager.)

And don't sell short all that middle managers can learn from each other, whether it's finding out how a peer in another part of the organization deals with a similar challenge or engaging in team "action learning" experiences in which leaders work together to solve a problem or innovate a new approach or solution for an improved process or product. The networks they build and the connections they make with their peers can help to promote middle managers' own job engagement and morale, while also giving them a valued chance to interact and work with counterparts with whom they may not come into contact on a regular basis.

It's critical to give mid-level leaders opportunities to step away from their daily rigors in order to reflect. Self-insight tools such as the Index of Emotional Intelligence or the Change Style Indicator can make middle managers more aware of their own personal leadership styles. These insights help individuals to focus on specific areas for development and can motivate them to take action or seek support from their manager, peers, or their team, as well as from individuals and resources from outside the organization.

Driving success: a role for everyone. In organizations that are finding success in developing and supporting their mid-level leaders, we see some common best practices. For one, senior leadership not only acknowledges the importance of strong middle managers—it provides budget dollars and sends the clear message that the organization can't execute if its leadership pipeline is prohibitively empty in the middle. Executives also are visible in their support, taking the time for activities such as "kicking off" formal learning sessions or serving as mentors.

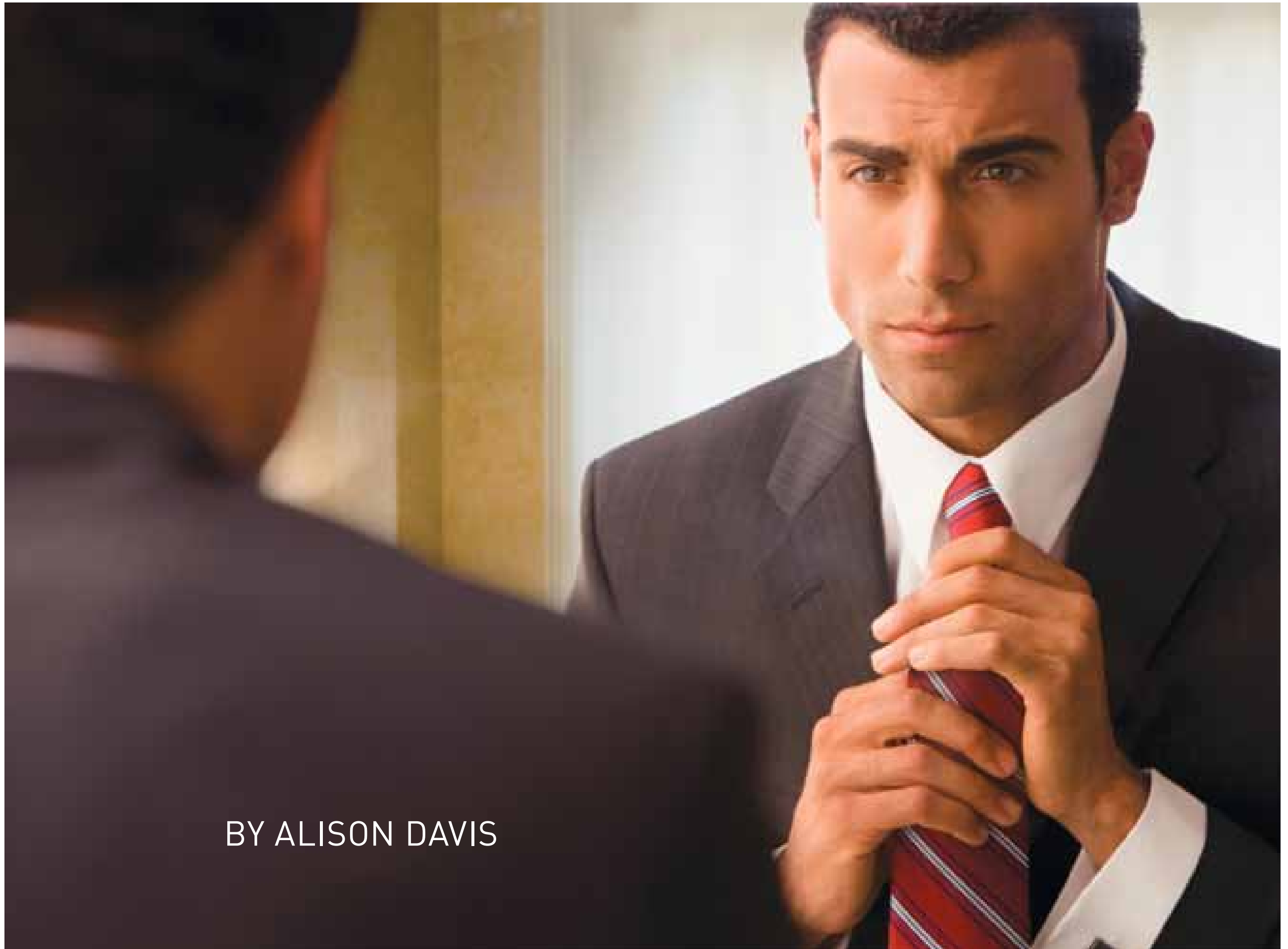
HR best practices include designing and executing the right development initiatives for both high-potential and high-performing mid-level leaders. As discussed above, these initiatives integrate assessment and development and take a business/role/self approach to ensure that middle managers are getting the full range of learning and growth they require. In many organizations, HR also takes the lead in constructing meaningful career paths for mid-level leaders in which the career ladder of the past is recast as a "career lattice," with skills, knowledge, and experience gained through lateral career moves as well as through promotions.

Mid-level leaders themselves also play a role by taking ownership of their own development and, ultimately, of their own careers. They manage their own development plans and take accountability for not only acquiring the skills, knowledge, and insights they need to target but also for changing their behavior in order to be more effective in their roles.

The current state of middle management is not only bleak—it's unsustainable. No one is suggesting relieving pressure by reinstating organizational layers, but companies, starting at the top and stretching down to the leaders themselves, need to be more aware of the challenges facing mid-level leaders and more active in addressing them. If these people really are the ones responsible for actually executing key plans, they deserve consideration, resources, and recognition.

No efforts, however ambitious and well-executed, will make middle management cool; kids will never yearn to emulate Grandpa and forge a career as a mid-level supervisor. But corporate initiatives can make things better—for both middle managers and the organizations that count on them. ■

ALISON DAVIS is CEO of Davis & Co., a Glen Rock, N.J.-based communications consultancy, and co-author of *The Definitive Guide to HR Communication*. Her last article was "Are You Talking *to* Your People or *at* Them?" in the March/April 2009 issue.



BY ALISON DAVIS

DON'T PANIC

HOW TO SURVIVE PRESENTING TO SENIOR MANAGEMENT AND THE BOARD OF DIRECTORS.

IT WAS THE BIG DAY. AFTER SIX WEEKS OF RESEARCH, PLANNING, AND PREPARATION, MY CLIENT AND I WERE READY TO PRESENT TO THE SENIOR MANAGEMENT TEAM. Our topic: how best to implement a major initiative aimed at making the company, a Fortune 500 behemoth, more nimble and efficient.

We were scheduled to appear at 1:30 p.m., so we stopped for a quick lunch at the cafeteria. On our way out, I had a question for my client. "Do they serve water, or should we buy our own?" I said.

She laughed. "Water?" she asked derisively. "Why would they serve water when they're going to roast you on a spit?"

Gulp. I escaped that meeting without being flame-broiled, but it was a close call. There's a reason—*many* reasons—why presenting to the CEO, the senior management team, and the board of directors is the communication challenge that causes professionals the most angst. In thirty-plus years working in and around corporations, I've seen powerful leaders sleepless with anxiety and trembling with fear when preparing to face the judgment of the boardroom. (One VP of manufacturing confessed to me over drinks the night before a big pitch: "I'd rather stand before an unruly horde of reporters—or a firing squad, for that matter—than present to the executive leadership team. These guys are tough as nails. You have to know the answer to every question, or they'll tear you apart.")

Are the senior team and the board really that daunting? It's true that they're smart. They're certainly sophisticated. And there's no doubt that they're driven—they didn't claw their way to the top of the heap by being shy and retiring.

But presenting to senior management doesn't have to be fraught with terror. You can pitch your proposal and emerge not only unscathed but glowing. How? By employing a strategy of persuasive jujitsu. The idea is this: The more you understand how executives think—what they want to achieve and what they worry about—the better you can meet their needs and accomplish your objectives.

And the best way to make your next command performance more, well, commanding is to take on the key mistakes that people make.

DATA OVERLOAD

Most people's first mistake is entirely avoidable: overwhelming their pitch with too much information.

"I've sat in way too many meetings characterized by machine-gun-fire-like bursts of facts," says Christopher J. Frank, VP of business-to-business and communications research at American Express and co-author of *Drinking from the Fire Hose: Making Smarter Decisions Without Drowning in Information*. "The colloquial term for this approach is 'spray and pray.' The presenter sprays every number or factoid he or she can find and then prays that something will stick."

Of the many reasons why this is a bad idea, here are three: You have a limited amount of time to make your case, so you can't squander it by wallowing in data. Senior executives have notoriously short attention spans, so you need to get to your point as fast as possible. And third—this one may surprise you—the more facts you present, the less smart you look.

"You need to remember why you've been invited to the boardroom," Frank explains. "You're there because you're an expert in something: engineering, IT, marketing, supply chain. As an expert, your job is not to regurgitate data—it's to analyze information and, based on those insights, provide your recommendations. As a result, you should be able to summarize all the data in one or two slides."

Of course, you need to have a thorough understanding of the data your pitch is based on, and be ready to answer questions about it. Just don't display *all* of it. Don't use data as a presentation crutch or include slides of information just "because I worked so hard to get it." Data should be used as background—it's not the star of the show.

NEEDS AND EXPECTATIONS

Bill was frantic. His boss—the CFO—had just told Bill that, in ten days, he needed to make a presentation to the executive team about his cost-cutting initiative. "There's no way I can be ready in time," Bill groaned. "I've got to gather the data, run the projections, design the slides—it's just too much!"

Attempting to calm him down, I interrupted. "What is the purpose of your presentation?" I asked. "In other words, what does the CFO expect? What are his objectives? What will success look like?"

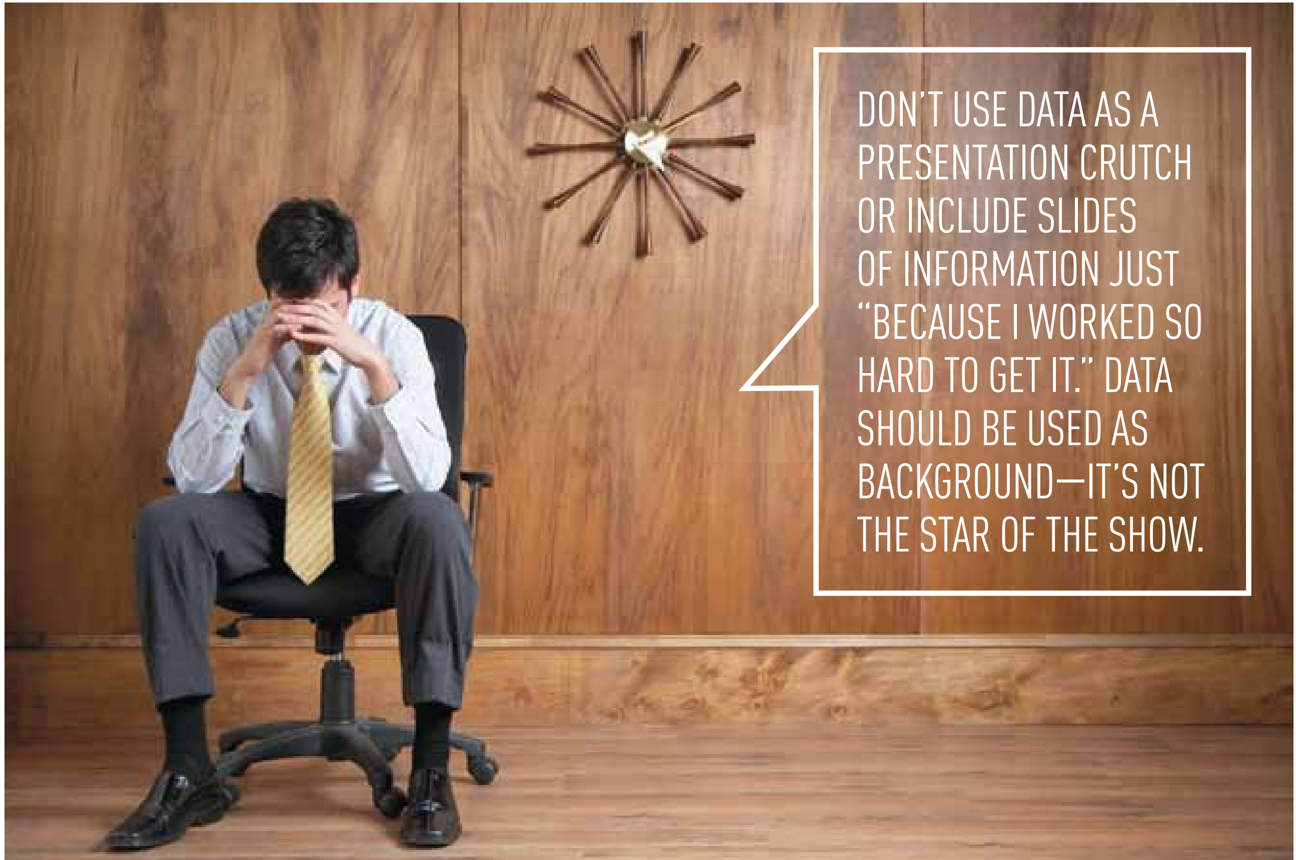
Bill's tirade sputtered to a stop. "Actually, I don't know," he admitted. "I just assumed my boss wants me to give a comprehensive report on the initiative. I never asked him what the focus should be."

Understanding senior leaders' expectations is key. If Bill had not asked, he would have spent dozens of hours on a presentation that would have fallen flat. What he learned was that the CFO wanted to address only two issues: when the cost-cutting plan would take effect and how much money could be expected to be saved this year.

"We too often make assumptions about what the bosses want to know," Frank says. "Sometimes, it's because we don't have direct access, and it may require some effort to find out. But more often, we just plunge ahead without checking. After seeing this mistake too many times, now every time I need to present to a member of senior management, I send a short email about a week in advance with a simple question: 'What do you most want to know about the topic I'm presenting?' It's amazing how well this technique works."

NO SUPPORT

For Valerie Di Maria, a C-level consultant and former CMO and chief communication officer at companies such as GE



Capital, Motorola, and Willis, one of the biggest mistakes a presenter can make is failing to "pre-sell" a proposal to key members of the executive team. "In a perfect world," she says, "the benefits of what you're proposing would be so blindingly obvious that your pitch would be embraced by the entire executive team on the strength of its merits. But, especially at the top, organizations are complicated. Each senior manager has his or her own agenda. Each worries about different issues: complexity, cost, focus, strategy—you name it."

If you walk into the boardroom cold, without testing your concept with individual members, you run the risk of encountering what I call scattering-ducks syndrome. One executive gets nervous, another picks up on the anxiety, a third starts quacking, and, in a flash, the whole flock takes to the sky in a collective panic. And there you are, clutching your sodden proposal (wet from all the splashing), being asked to "come back when you've given this further study." To mix metaphors, that's the kiss of death.

Arrange informal chats with at least a few supportive executives before the meeting. Your sponsor should certainly be first on your list, but think about whom else it would be politic to enlist. One brave VP I know routinely approaches the CIO because he's known to be a "cranky bastard": Since he resembles Mikey from the old Life cereal commercial ("He hates everything!"), if she can get him on board, everyone else will want to eat the breakfast.

TOO MUCH POWER, NOT ENOUGH POINT

It's the biggest meeting of the year—maybe even your career—so of course you're going to spend weeks getting ready for it. How, then, it possible to under-rehearse? Simple, says Di Maria: People put all their energy into creating and fine-tuning their PowerPoint slides, spending too little time practicing for the actual "performance." Sufficient rehearsal means working through:

Who will present and how. Will every part of the session be based on slides, or will other methods be used as well? How will transitions be handled?

How to field questions. You should come up with the toughest questions that might possibly come up, draft answers, and assign which team member will answer them.

What to do if the presentation is derailed. "You go in thinking you have thirty minutes to make your pitch," Di Maria says. "But then another session before you runs long, or another issue comes, and before you know it, the CEO is telling you

that you've only got ten minutes. You'd better be ready with a game plan for scenarios like that. "

And don't be surprised, says Di Maria, if executives cut your pitch short. "Once leaders say, 'Got it,' that's your signal to move on. I have seen so many presentations go badly because people stick to their scripts and don't go with the flow. Remember that you are not in control. You have to go where executives want to go."

NO EXPERIENCE NEEDED

BY PETER COUGHTER

There was a time when the various forms of visual support were called visual "aids." Today, most PowerPoint shows are like throwing an anchor to a drowning man.

Once, after I had railed against the evils of PowerPoint for most of the previous day, a workshop participant got up in front of the room and proceeded to read, word for word, what was on the screen. While looking directly at the screen the entire time.

Her colleagues stared at her uncomfortably.

I was beside myself, and remembered the words of the woman who had booked me for the engagement: "You've gotta be tough on them."

And so I was.

When the woman was through reading to us, I suggested that the same presentation could have been given as effectively by a cab driver who I could have recruited off the street. No knowledge of the topic or particular skill other than the ability to read English was required to duplicate her performance.

She wasn't happy, but she got the idea.

One of her colleagues said to me, "That was mean. Mean, but awesome."

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IS IT ONLY LOGICAL?

Senior executives seem to be entirely analytical. On the surface, each is the Mr. Spock of the corporate world, using facts (and only facts) to inform their decisions.

In fact, there are as many Captain James T. Kirks in the executive suite as there are Vulcan first officers. In any case, recent advancements in neuroscience have proven that even the most coolly logical person is actually ruled by emotions. Data simply reinforces people's beliefs—it doesn't really change their minds.

This is not to say that your presentation should not be grounded in facts; since we've all bought into the myth that logic prevails (especially among senior leaders), not including data would be career suicide. Just don't forget that emotion can be a powerful persuasive tool.

To wield this weapon, first, exude the confidence you (hopefully) feel. Your passion for your work and the courage of your convictions pack a powerfully persuasive punch. "People find enthusiasm appealing," Di Maria says. "They want to be a part of it. By making it clear that you're smart, you're knowledgeable, and you care, you can create positive momentum."

Second, tell a vivid story. One of my most challenging presentations started badly, then turned around to become a rousing success. I was asked to attend a senior team meeting to report on an employee-engagement study with disappointing results. After a merger and reorganization, employee morale had, well, tanked. As soon as I started sharing the key findings, executives began to challenge me: Was I sure the methodology was valid? Weren't the results skewed because the survey was conducted in December? Why were the findings much more negative than what executives were hearing from their people?

After getting bumped around for a while, I decided to change my strategy. "Let's switch gears and look at the focus-group findings," I suggested to the senior team. "I think that will provide a more complete picture." I knew that the focus-group section of the report contained dozens of verbatim quotes from employees—quotes that brought to life the pain workers felt after what the organization had been through.

As soon as I started reading the quotes, the mood in the room changed. Executives stopped being defensive. They listened soberly. They nodded and confirmed that their employees had said similar things to them.

Executives could dispute facts, but they couldn't argue with the compelling and credible story that employee testimonials told. As a result, the HR VP (who sponsored the research) was finally able to engage leaders in a conversation about what the company could do to address the issues.

WHAT'S ON THEIR MINDS

You enter the boardroom (thinking, "Isn't it warm in here?"), as ready as you'll ever be to present your recommendation. You're so fixated on your own performance that you haven't thought about what's going on in the big brains of the senior leaders sitting around that beautiful teak table.

But if you *could* peer inside their heads, you would learn ways to be more successful every time you stand before the board or the senior team. While I couldn't persuade any CEOs to submit to an MRI, I was able to pick the brain of Gary Sheffer, who has spent more than a decade working closely with senior leaders at General Electric in his role as VP of corporate communications and public affairs.

What, then, do leaders want? Four things, says Sheffer:

ANALYSIS Senior leaders are big-picture generalists who routinely address a wide range of issues in a short amount of time. So they need their people to do all the legwork and then conduct a thorough analysis. The more comprehensive your thinking, the better.

ALTERNATIVES Although you should come into the meeting with one strong, clear recommendation, you should also be ready to discuss a Plan B—usually a notion that you've considered but is weaker than your Plan A. This is especially important if your key recommendation is expensive or risky. Executives will likely ask, "If there another way to address this problem?" You should be prepared with a viable alternative.

ANALYSIS Sheffer believes that most presenters' biggest mistake is spending too little time thinking about how they will answer questions. Senior leaders are smart, they're naturally curious, and questions are how they explore an issue. So you should be ready to answer even the most peripheral question.

ACTION "You haven't been invited to the boardroom to be informative or amusing," Sheffer says. "You're there to focus on action. Leaders know that their role is to consider an issue, decide on an outcome and move on." So they need to know: What should we do? How should we do it? When can we start?

—A.D.

BACK AND FORTH

Your PowerPoint deck has been loaded into the laptop. The screen has been lowered. The projector is on. Everyone sitting around the board table knows what to expect: You (the presenter) talk, advancing slides as you go, while they (executives) pretend to listen, surreptitiously checking their BlackBerries.

It's all very static, all very one-way, and—here's the trouble—not very effective at engaging your audience.

What works better? At the appropriate time, *ask* a question. "Executives are very smart, and it's easy for them to assume that they've thought of everything," Frank says. But your analysis probably raised some issues. You may know the answers to most of them, but you may find it useful to learn what executives think.

Frank advises saying something like: "As I was working on this, something surprised me. I'd like to get your perspective on this issue . . ."

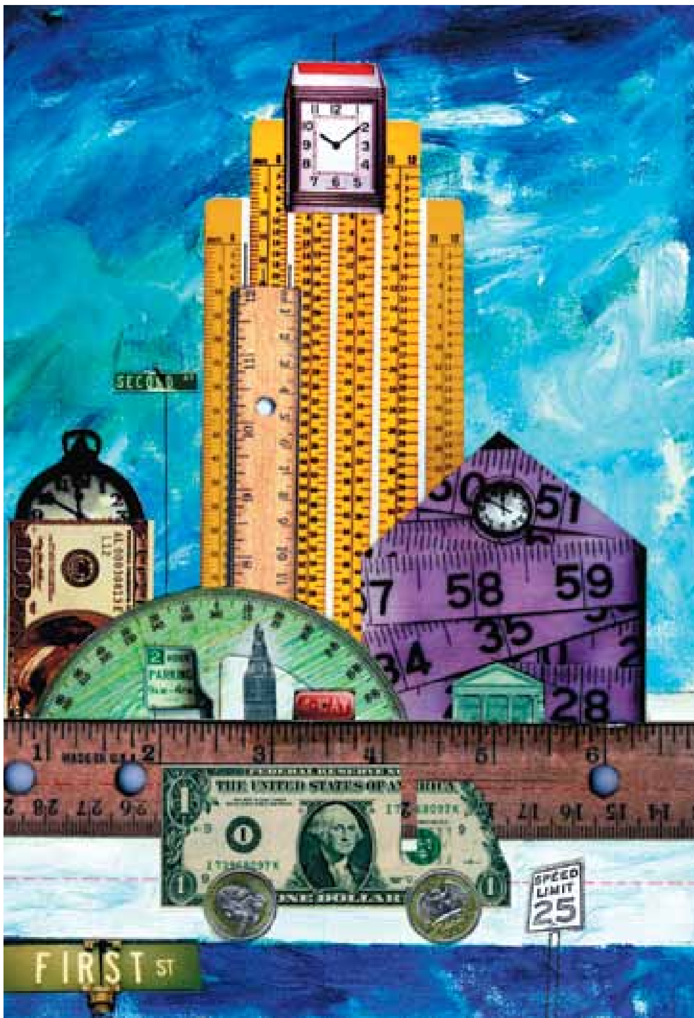
You've instantly changed the dynamic of the session. You've introduced a provocative topic—one designed to make leaders think. And you've gone from one-way blah-blah-blah to participative dialogue. You're now all in this together, collaborating to get to the bottom of the issue.

"There's no doubt that you have to be painstakingly prepared when you present to executives and the board," says Frank. "But that doesn't mean you can't ask questions. In fact, smart questions are one of the most powerful instruments in your presentation toolbox. They can open up the possibilities and truly engage leaders." ■

I was asked to attend a senior team meeting to report on an employee-engagement study with disappointing results. After a merger and reorganization, employee morale had, well, tanked. As soon as I started sharing the key findings, executives began to challenge me: Was I sure the methodology was valid? Weren't the results skewed because the survey was conducted in December? Why were the findings much more negative than what executives were hearing from their people?

VADIM LIBERMAN is senior editor of *TCB Review.*

THE case against THE business case



FOCUSING ON FINANCIALS CAN BE BAD FOR BUSINESS.

BY VADIM LIBERMAN

WHAT DOES IT MEAN TO SAY SOMETHING IS GOOD FOR BUSINESS? Imagine you're a diversity executive. You're used to answering that question before it's even asked—unless, perhaps, your CFO is the one doing the asking. So you explain to her that diversity impacts employee engagement, which motivates workers, spurring them to collaborate on new ideas for—

Wait—what's with the weird look on the CFO's face?

You know the answer. It's not that she doubts you. It's that she wants to know not *why* but *how* diversity is good for business. Engagement and motivation data are nice, but the main numbers in which she's interested follow dollar signs. In other words, she insists you make a business case.

You need not be a director of diversity—or marketing or product development or social media or any specific division—to find yourself in the daunting position of having to use Excel and PowerPoint to justify your activities. And it's not only accounting heads whipping out their calculators. Making and judging business cases is increasingly part of all our jobs, so much so that the process is almost meaningless: "business case" is nowadays so often invoked, so broadly applied, that we've stripped the term of any significance. If something—anything—boosts customer satisfaction, sales, productivity, media impressions, worker retention, you name it, then it satisfies a business case. Here's what's unsatisfying: When there are as many versions of as there are people making business cases, the joke's on us.

Let's be real. At some deeper level, when we say "business case," we really mean a *financial*, *measureable* rationale. Increasingly, corporations agree. Similar to what happens regarding executive pay, when times are good, fewer people complain, but the moment the economy wobbles, out come the magnifying lenses. These days, searing scrutiny is forcing everyone to move beyond simply stating that efforts are somehow, someway, somewhere, somewhat good for the bottom line. Now you have to prove it.

This article isn't titled "How to Make a Business Case"—calculating ROI, revenue, profits, losses, etc. You have accountants to write that story. Rather, it's about pondering the situational importance of applying a cost-benefit analysis to making financial cost-benefit analyses. And so the real questions become: How do you determine which initiatives should demand greater financial focus? Should any require less? And what if you cannot, or should not, or do not want to prove pecuniary benefits? What then?

STARTING LINE

Wouldn't it be great to squeeze the answers neatly into a graph?

We're manic for metrics. They help us make sense of the world, even when they don't make sense themselves. "We see numbers as 'hard' outputs: objective, reliable, repeatable, verifiable," wrote Susan Webber in "Management's Great Addiction" in this magazine's May/June 2006 issue. "But most management data is softer than, say, your company's stock price at the close of trading. Even if we understand those limitations intellectually, we somehow lose that perspective when we wrestle with figures."

Webber, a management consultant, had in mind metrics in general, but when she referenced stock price, intentionally or not, she tapped into our

collective belief that we don't measure all measures equally. We get high off of the apparent definiteness and definitiveness of financials in ways that we do not off of other data. We forget that numerals don't actually speak—people do. It's someone's (sometimes our own) interpretation of numbers that stirs head nods or eye rolls.

Nonetheless, money remains the international language of business. The trouble is, sometimes we get lost in translation of financial data into a business case.

Speaking of, what is your business case for office supplies? No, this isn't satire—you're not reading *The Onion*. Legal pads aren't free, so your company must have held executive-committee meetings to validate their procurement, right? Ernst & Young presumably computed expected ROIs, and after months of deep reflection, you conceived a solid business case for your walk over to Office Depot.

If this seems absurd, the point is not: Somewhere between purchasing a paperclip and opening an overseas plant, cost-benefit reviews become important. But where?

"Oftentimes, the money is already sitting in the budget. It's not something that a manager has to ask for, so he isn't forced to make a business case," explains Mike Bourne, director of the Centre for Business Performance at Cranfield University in England and co-author of the *Handbook of Corporate Performance Management*. For most sizeable capital expenses, however, large corporations commonly draw a cost-based line—with pens and pencils that obviously fall below that line. What's mainly relevant is not where but that companies do this to avoid plundering resources that could exceed those actually related to the investment. To use an extreme example: "We've all been in a situation where someone in Accounting goes berserk over a cab fare or because you had an extra French fry," says David Larcker, the James Irvin Miller Professor of Accounting at Stanford's Graduate School of Business. "Going back and forth about business cases for such things is not worth it. Just pay it. Otherwise, you'll piss off people." Worse, you may waste time and effort struggling to make business cases for business cases.

Choosing a fiscal threshold is the easiest decision regarding when to make a business case. So easy, in fact, that it deceives us by presupposing the answer to a central, underpinning question: Can we subject everything to a business case?

"Everything can be valued financially," claims Bourne. To a degree, that's true. You can slap a price tag on anything. Training programs cost this; IT equipment costs that. But knowing the price of everything and the value of nothing risks stumbling to a point of no returns, where a marketing campaign that costs $1 million might be worth no more than $1. To mull over whether something will actually merit its cost, you must consider how—if—you'll eventually evaluate financial results.

CAUSE AND NO EFFECT

While a proxy statement *shows* the financial health of an organization, it does not *explain* it. "Accounting is really great at telling you if you made money," Larcker says, "but it's not so great at saying: Here's the procedure or process that made you that money." Actually, it may not tell you whether an activity generated income at all!

Take corporate philanthropy. Companies gave over $15 billion to causes in 2010, according to trackers at the GivingUSA Foundation, perhaps due to a positive association between social and financial performance. But does more giving lead to higher profits or vice versa? Or neither?

The point is that no one should confuse an association with causation, especially for non-capital investments such as advertising, marketing, sustainability, diversity, public relations, and anything that reallocates people's time and effort. A variety of variables blocks a direct causal route from A to B, or more like a twisting road to Z where an entire alphabet of suppositions looms to bump you off. The smog especially thickens with long-term-evaluation timelines. For instance, while Macy's can track product performance quarterly, Boeing may take years to assess its investments. By then, innumerable variables can litter the path to clear correlations.

"As you start piling on assumptions, it becomes more difficult to have complete faith in the

YOU MAY WASTE TIME AND EFFORT STRUGGLING TO MAKE BUSINESS CASES FOR BUSINESS CASES.

EVEN IF YOU COULD SOMEHOW DEMONSTRATE BASIC CAUSALITY, YOU'D STILL BE UNLIKELY TO SHOW THE EXTENT TO WHICH A SPECIFIC ACTIVITY IMPACTED FINANCIAL PERFORMANCE.

numbers, which become purely subjective based on underlying assumptions," explains J.P. Eggers, assistant professor of management and operations at NYU's Stern School of Business. So the next time a consultant beguiles you with wild algorithms showing a social-media campaign's profits, *es como leer Español cuando no sabe el idioma. Puede leer las palabras pero no reconsceras*

el significado. It's like reading Spanish when you don't know the language. You can sound out the words, but you won't comprehend their meaning.

"At FedEx, we don't pretend that we figured out causal links, because there are no clean sets of linkages," says Rebecca Yeung, the company's director of enterprise quality. The shipping giant is not alone. According to Larcker, fewer than 30 percent of companies have developed models making causal connections to long-term economic performance. Even if you could somehow demonstrate basic causality, you'd still be unlikely to show the *extent* to which a specific activity impacted financial performance. For example, can you convincingly argue that a few extra hours of customer-service training added a certain amount to the bottom line?

Some years back, Larcker, along with Wharton accounting professor Christopher Ittner, studied a telecommunications company that sought to achieve a 100 percent customer-satisfaction rate. However, the organization didn't attempt to find out whether a customer's level of satisfaction correlated with profits that customer generated. In fact, such a relationship existed, but only to a degree: Customers who were 100 percent satisfied spent no more money than those who were only 80 percent satisfied.

Hold on, you might be thinking. Doesn't this prove that you *can* link nonfinancial to financial performance?

Not exactly. You don't invest in customer satisfaction. You invest in training or technology or workers or any number of factors that you hope will bolster customer satisfaction. The relationship that matters most is not between a customer-service score and profits but between the actual investment and revenues. Sure, other factors being equal, you can use a nonfinancial measure to fill the gap—except that nothing is ever equal. The road to revenue blurs with ever-changing variables, the impacts of which smear across your accounting numbers.

Who cares, right? You made money. Yes, but just because business isn't a hard science doesn't mean it should be a casino. Rolling your performance results onto a craps table won't likely increase your odds of future success. Drilling down to identify the sources of your profits will. Moreover, you're still left with the dilemma of deciding among investments in projects that increase customer service, employee engagement, marketing, and other intangibles.

"For a company our size," explains FedEx's Yeung, "it's difficult to isolate one thing that is incremental to revenue because every single day, there are many things happening that affect business. We have so many functional areas that it's hard for any one of them to claim they did something that directly led to revenue."

Messier still, if you're unable to make a single tight fiscal argument for one initiative, how do you compare multiple murky financial cases? For example, dollars devoted to developing a new

product may yield high returns, but higher than the same amount spent on, say, customer-service training? As your decision-making basket grows heavier with more possible investments, each with its own unique assumptions, a look inside it reveals not just apples and oranges but many other fruits, vegetables, and legumes that makes comparing them a sour burden.

BEYOND FINANCIALS

All that arithmetic can knock you down for the count—if you attempt to count anything in the first place. Many managers do not. Some are too lazy to make business cases. Others may have more practical grounds not to. A study by the consultancy ESI International bears out that fewer than half of surveyed executives track the impact, financial or otherwise, of their training and learning programs, commonly citing reasons such as lack of resources and confusion about what to measure. A majority of those who don't gauge results claim that they're not asked to. (Notably, almost 20 percent of managers who don't measure business impact admit it's because—get ready for it—they are worried about the outcomes.) Furthermore, of those who assess any type of performance, less than 40 percent evaluate ROI or revenue. At FedEx, explains Yeung, "we measure everything we can. When we don't measure something, it's because it's not obvious *how* to." Is everyone else just calculating the incalculable?

So what do you measure? You monitor what you can—namely, nonfinancial indicators such as quality, productivity, engagement, retention, and satisfaction. Tracking intangibles not on a balance sheet illuminates a more balanced view of corporate well-being, or so the thinking goes. "Sometimes you cannot use ROI to justify something, so you take a multifaceted approach," Yeung explains. "We invest in technology infrastructure that does not generate direct revenue, but it enables us to provide an outstanding customer experience, which in turn leads to financial payout."

"Not everything requires a cash-flow analysis," Eggers adds. "For example, an attempt to do that for media relations won't be helpful, so you say, Look, having a strong PR presence allows us to mitigate potential reputational damage and risk, increases our public awareness, and improves public image—and in the end, these things are good for the company's bottom line."

Indeed, such correlations are obvious. Maybe. Selecting the right staff, which drives employee satisfaction, which drives employee-added value, which drives customer satisfaction, which drives customer buying behavior, which drives sustained profitability, finally drives shareholder value. This model, at least, seemed self-evident to the fast-food chain that developed it, according to Larcker. Unfortunately, for various reasons, the numerous assumptions connecting the dots fell short. Not nearly so linear, the real world failed to fit onto a PowerPoint slide.

Meanwhile, applying a media-impressions metric to one endeavor and a customer-experience score to another propels us to another problem similar to that of employing financials to compare activities—only this time, how do you use nonfinancials to do so?

Maybe you don't. It's not only that weighing customer-service and employee-engagement values may be pitting apples against oranges. *The projects themselves are not all apples*. Except *don't* is not synonymous with *can't*. It's a cruel paradox to argue that you must do something you feel you can't, but ultimately, you have no choice but to compare the incomparable. Tragically, the very nature of business lies in allocating limited resources. The problem with using nonfinancial numbers to do so: Their key disadvantage can mutate into an advantage for some. That is, the vaguer the measure, the more manipulable. For example, at an auto-components manufacturer that Larcker and Ittner studied, managers met quality targets by accepting flaws in parts that they would have previously rejected.

Even good intentions can spawn bad outcomes: By lowering a product's price, a company may improve customer-satisfaction and market-share ratings—and hurt profits. (But hey, who knows? It's not as if you can absolutely prove such links anyway.) Likewise, focusing on nonfinancials in the decision-making stage can help managers gain approval for their projects or kill those of others.

IS EVERYONE ELSE JUST CALCULATING THE INCALCULABLE?

"These kind of numbers are a way to avoid making a financial case," Bourne explains. "Instead, they should be conversation starters, as long as management sees them for what they are."

BUT NOT TOO FAR BEYOND FINANCIALS

What are they exactly? Primarily, they are what financial numbers are not—vulnerable pansies that

TURNING FINANCIALS INTO A SWORD THAT SLAYS NUMEROUS ACTIVITIES RISKS BUTCHERING RISK ITSELF, WHICH CAN RUIN INNOVATION AND CREATIVITY.

managers can bully. Accounting digits stand up better to attempts at manipulation. And whereas there is a mass of means to compute and report customer satisfaction, productivity, brand awareness, and other nonfinancial data, financial figures lack such fluidity. In fact, various departments at a company often measure the same indicator differently. At least in financial accounting, there are more widely accepted rules and standards. Sure, creative accounting is practically a practice unto itself, but to argue that we elevate money metrics above others simply because they're less susceptible to tinkering misses their main appeal.

Financials are the sole objective standard that we can apply across every project, function, and person, the common denominator to compare different initiatives, from different departments, from different companies. Plus, we may not grasp the nebulousness of an extra employee-engagement survey percentage point, but we certainly know what a dollar looks like.

Besides, tossing in too many metrics risks what Larcker calls "measurement disintegration," in which an overabundance of marginal, insignificant, or irrelevant assessments dilutes the effect of the measurement process. A leading home-finance company that Larcker and Ittner studied suffered paralysis by analysis after instituting an "executive dashboard" that eventually ballooned to tracking nearly three hundred measures. Larcker also points to a bank that adopted multiple accounting and nonfinancial measures. As a result, the time per quarter that area directors began spending on evaluation jumped from less than one day to six days. Eventually, the company reverted to fewer, money-based measures.

Still, though financials numbers are more objective and understandable than their nonfinancial counterparts, the wielding of them may be anything but. In fact, by acknowledging the subjectivity of nonfinancials, we already view them skeptically. "Everyone recognizes that the nonfinancial side is subject to interpretation and beliefs, but there's a blind belief that when something is on an Excel sheet and produces a positive value, it must be right," Eggers says. Consequently, instead of fiddling with nonfinancial metrics, managers may find it more expedient to fling accounting numbers to red- or greenlight projects.

For example, when an initiative related to social responsibility doesn't show profits on a spreadsheet, a focus on financials can easily squash it. We can say the same for many initiatives that aren't clearly financially quantifiable. But turning financials into a sword that slays numerous activities risks butchering risk itself, which can ruin innovation and creativity. The reverse is also true. Suppose you base a strong business case on cost savings to move your call center from Maine to Manila. Sure, lower prices for labor and rent will improve your financial numbers, but if the relocation spoils customer satisfaction, intra-organizational communication, and a host of other intangibles, you may not discover the move's true

cost until it's too late. "Just because something looks good on paper," Yeung says, "doesn't mean it will look good in real life."

BAD AND WORSE

By now, the ping-pong between financials and their weaker complements must feel like when one door closes, another slams in your face. Unfortunately, there's no portal that opens to an ideal measurement, especially given that at least 70 percent of companies employ metrics that lack statistical validity and reliability, Larcker estimates. Yes, financial may trump nonfinancial data, but now we're just comparing bad and worse.

Ultimately, hard numbers matter more. Just think: What if financial and nonfinancial performances diverge? "Usually, this doesn't happen," Bourne says. "When it does, it's because we're only looking at the short term, but of course, if a company sees this happening over a period of time, then financials should trump nonfinancial performance." Obviously. You can brag all you want about winning brand-recognition, customer-satisfaction, and employee-retention scores, but unless they lead to major revenue, you're losing the game.

In the end, there's probably something wrong with either the activities or the measurements if you're hitting your nonfinancial targets but not your financial ones. The main reason we measure intangibles to begin with is not because we want to but because we can (or think we can); they serve as proxies for the numbers that really matter.

So where does that leave us? If you're seeking a single measurement to escape the metrics maze, you won't find it here. "Using a standard template, financial or otherwise, for quantifying anything is problematic because the decisions we make are not comparable in clear ways. It's a dangerous path to go down," Eggers says. Likewise, there's no suggestion to segregate corporate activities into camps—this project requires a focus on financials, this one does not—based on frequently unreliable data.

In fact, there are situations when you may want to ditch the data altogether—that is, avoid making a business case not because you cannot but because you think you should not. You might argue against financially trying to justify philanthropy, sustainability, safety, or other perceived social goods or standards of doing business. "There are certain instances in which you may decide no financial arithmetic needs to be done," Larcker says. "You may decide this is how we're going to treat people. This is what we stand for. If you don't like it, don't work for us, and don't buy our stock."

FedEx, for example, does not try to tie dollars to diversity, which is "part of our belief system and culture," Yeung explains. "We don't bring in consultants to justify our investments in diversity. If you try to make a measurable business case for it, you won't be able to, defeating the whole purpose of diversity."

In other instances, a ticking clock may leave no time to account for accounting. Potential opportunities can quickly total zero by the time you finish all your adding, subtracting, multiplying, and dividing, at the other end of the equation.

Even without such constraints, if business were as simple as surrendering all the work to numbers, we wouldn't need managers. And so, the real link between an activity and revenue is not nonfinancial performance but people. More specifically, it all boils down to what business has been and always will be about: you, the manager. "Not everything is a scientific decision," Yeung says. "A lot of times, good instinct, experience, and judgment must come into play." Thus, you shouldn't hurl figures around when making a business case or evaluating results as if the digits tell the whole story—because, as mentioned before, numbers do not speak. Nor do they make decisions. You do. There's a certain illogic of blaming poor data when initiatives fail and accepting lavish praise when they succeed. n the end, the responsibility lies with you.

Perhaps Larcker offers the best advice: "You can't quantify everything down to the nit," he points out. "You've just got to acknowledge key assumptions and get as much evidence as possible. You won't have all the information, but ultimately, you'll be able to better decide if something makes sense." If this still seems like insufficient guidance, you can always hire consultants to help the process along—if you can make the business case for them. ■

IN THE END, THERE'S PROBABLY SOMETHING WRONG WITH EITHER THE ACTIVITIES OR THE MEASUREMENTS IF YOU'RE HITTING YOUR NON-FINANCIAL TARGETS BUT NOT YOUR FINANCIAL ONES.

MOST FUTURE GROWTH AND INNOVATION WILL BE IN DEVELOPING COUNTRIES—AND COMPANIES SHOULD WASTE NO TIME SETTING UP SHOP OVER THERE.

MATTHEW BUDMAN is editor-in-chief of *TCB Review*.

OUT OF THE ★ WEST

THE DAYS ARE LONG GONE WHEN WESTERN COMPANIES COULD SECURE A FOOTHOLD IN DEVELOPING ECONOMIES BY SHIPPING OVER THEIR EXPIRED AND OBSOLETE CAST-OFFS. "In most cases," writes Vijay Govindarajan, "you can't just take a product designed for the rich world, make minor adaptations, remove a few features to reduce costs, and suddenly have a blockbuster product in China or India."

Since much of the world's economic growth is happening in those markets, companies can't just write them off. But serving customers in China and India and Africa and elsewhere demands more than a bit of brainstorming in offices in the West, Govindarajan says—it requires actually setting up R&D centers in those countries, to get a close-up view of what customers want and need.

And the resulting innovations—high-quality products and services at a fraction of current U.S. prices—represent the future not only in the emerging economies but on Western shores as well. Of course, that process—creating in poor countries and shipping to rich countries—runs counter to the way innovation has traditionally worked. Hence the term *reverse innovation*.

Govindarajan is Earl C. Daum 1924 Professor of International Business at Dartmouth's Tuck School of Business; he placed third on last year's Thinkers50 list of "the world's top 50 business thinkers," partly on the strength of a 2009 *Harvard Business Review* article, co-written with GE CEO Jeff Immelt, that introduced the concept of reverse innovation. Along with his longtime co-author, Tuck professor Chris Trimble, Govindarajan expands on the idea in *Reverse Innovation: Create Far from Home, Win Everywhere* (Harvard Business Review Press).

He spoke on a recent visit to The Conference Board's offices in New York.

BY MATTHEW BUDMAN

YOU WRITE THAT "PEOPLE—ESPECIALLY IN THE WEST—EXPECT THE FUTURE TO BE INVENTED IN SILICON VALLEY OR HOUSTON OR MUNICH, BUT NOT IN BANGLADESH."
Part of those cultural assumptions come from our historical success. We have been so successful for the last hundred years that we still have that mindset—we think the universe starts and stops here, and our innovation can serve the entire world. But Silicon Valley doesn't have a monopoly on innovation; innovations can happen in other regions.

IN YOUR NEW BOOK, YOU KEEP COMING BACK TO CHALLENGING WESTERN MULTINATIONALS' ASSUMPTIONS AND "THE DOMINANT LOGIC." WHAT ARE THOSE ASSUMPTIONS?
The first assumption is that the emerging markets will grow exactly the same way that America grew in the past. In America a century ago, the per-capita income was $1,000, just like India today. So companies see India today as America a hundred years ago, and therefore India will need more transportation, more food, more energy, and more health care, just like America needed those things back then. The mistake that people in the West make is assuming that India, in the next hundred years, will grow along the same economic trajectory that America did and that, therefore, no one needs to do any innovation—companies can take the products they already have and just wait for India to catch up. This assumption is flawed.

BUT WON'T INDIA NEED MORE TRANSPORTATION, FOOD, ENERGY, AND HEALTH CARE?
Of course. But they will solve those problems with today's technology, not with hundred-year-old technology. They will leapfrog the earlier innovations.

The second assumption that American companies have is that once per-capita GDP reaches a threshold level—say, $10,000—consumption will take off. People will want things like cars and houses and cell phones. According to that assumption, India, with its $1,000 per-capita income, must grow tenfold before consumers will buy cars and houses and cell phones. This assumes that price thresholds will remain constant. But if you can bring the price of a car down to $2,000—which is what Tata Motors has done with the Nano—then Indians can start buying cars now.

The third assumption is that the only competitors they need to worry about are other multinationals. The biggest disruptor to your business will probably be some local company you've not even heard of. Historically, what multinationals have done is make products in rich countries and sell them in poor countries. Reverse innovation is doing the opposite—it's about innovating in poor countries and bringing those innovations to rich countries.

HAVEN'T COMPANIES ALWAYS JUST GONE WHERE THE MONEY IS?
For Western multinationals, the dominant logic is based on making premium, performance-rich products for sophisticated customers. As an example, GE Healthcare sells expensive machines to hospitals in the United States: $1 million X-ray machines, $2 million CT-scan machines, $3 million MRI machines, $350,000 ultrasound machines. The dominant logic there is that in every hospital, there is an imaging center, and when the doctor sends the patient to the imaging center, all these big, expensive machines will be sitting there, waiting. That's how the typical U.S. hospital infrastructure looks.

Now, in Africa, 2 percent of the hospitals look similar to those in the United States. But 98 percent of the population is not served by that imaging center. Sticking to the dominant logic will not help you in unlocking the potential in the continent of Africa.

YOU CALL IT "A SERIOUS ERROR TO VIEW MARKETS IN POOR COUNTRIES AS DUMPING GROUNDS FOR SUNSET TECHNOLOGIES." DO EXECUTIVES REALLY THINK THIS WAY?
They really do say: "We've already done the innovation in the United States; all we need to do is set up a distribution center."

FOR PRODUCTS THEY MADE FIVE YEARS AGO? I GUESS THE UNOPENED CRATES ARE STILL IN THE WAREHOUSE.
Exactly. But India doesn't want five-year-old products, much less twenty-year-old products. One of the mistakes Western companies make is thinking that selling in developing countries is all about low cost. It's not—it's about value. Poor people don't want cheap products—they want world-class-quality products at an affordable price. This is about shifting the price/performance paradigm.

BUT ISN'T THAT WHAT AMERICANS WANT AS WELL: HIGH QUALITY AT A LOW PRICE?

Even though the price/performance ratio is important to *every* customer, it's much higher here. Because the affordability of the customers in rich countries is so high, companies can demand very high prices and offer a lot of features. It is true that even in the United States, there is a class of customers who are poor, but it is small, so companies have ignored them. Just like 10 percent of the people in India are rich, 10 percent of the people here are poor, and companies cater to the bulk of the population: those who can afford top products.

Western multinationals look at a market like India or China and say, "Only 10 percent is ready for my product; the remaining 90 percent are still too poor. We have to wait until they're rich enough." And what's important to recognize is that if you wait, the 90 percent will be served by someone else.

AS CONSUMERS, WHAT DO THE 90 PERCENT WANT? WHAT WILL THEY SETTLE FOR?

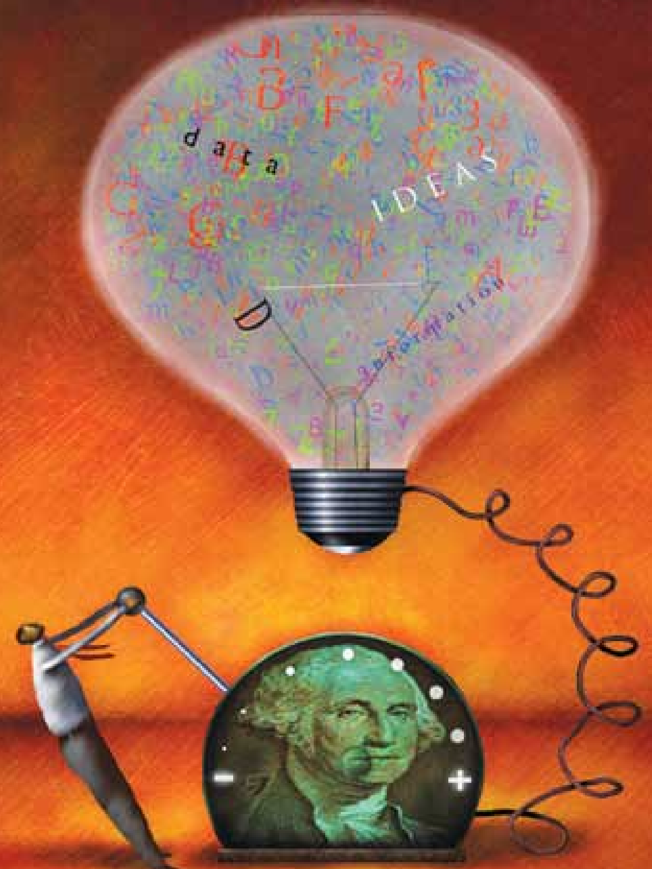
They won't settle. In India, people want cell phones that have video games and other features, and they want those cell phones at a *ridiculously* low price. They demand world-class quality at a dramatically different price point. That demand, and thinking about how to satisfy it, is where reverse innovation comes from.

A good example is Narayana Hrudayalaya hospital in India, which does heart-bypass surgery for $2,000. And the quality is world-class: The mortality rate at NH thirty days after surgery is 1.4 percent, against 1.9 percent in U.S. hospitals. Now, how are they able to offer world-class quality for $2,000, when that quality costs $100,000 in the United States?

BESIDES LOWER LABOR COSTS?

Sure, Indian surgeons get paid less than American surgeons. But the real difference is innovation. NH buys the latest

In India, people want cell phones that have video games and other features, and they want those cell phones **at a *ridiculously* low price.**



equipment—the same equipment you would find in Mayo Clinic or Cleveland Clinic or Mass General—and even pays more, because it has to be transported to India. They can afford it because they use that equipment *five hundred times* more than U.S. hospitals do, which really drops the price per patient.

In Hanover, near Dartmouth, we have a world-class healthcare facility. There's an imaging center with an X-ray machine, CT scanner, MRI machine—all just sitting there. They are utilized 10 to 15 percent of the time. In America, somehow we believe that it is our birthright that when we need that MRI machine, it should be available. Yes, health care should be accessible to everybody, but why do we tolerate 85 percent underutilization in a critical resource like an MRI machine? We wouldn't tolerate General Motors running a plant at just 15 percent of capacity. NH has driven its utilization of its imaging machines to 100 percent, bringing the cost per use down.

In the United States, we believe that health care is such a complicated and sophisticated industry that we cannot use manufacturing principles. But that's what NH does, with specialization, economies of scale, and standardization. They've borrowed principles from McDonald's, which makes billions of hamburgers with very few people.

And people think that with volume, the quality of health care will suffer, but no: Because the surgeons at NH do more surgery, they're actually better at it. That's why the quality is better overall.

AND YOU FORESEE THIS WAY OF THINKING COMING TO THE UNITED STATES?

Models like NH's will transform health care in the United States, for sure. Costs here are out of control, and even after spending so much, sixty million Americans are uninsured and quality is not best in class. Incidentally, NH is opening a new two-thousand-bed cardiac hospital in the Cayman Islands, a sixty-minute flight from Miami. It will be the largest cardiac facility in the world—and it will charge 40 percent of U.S. prices.

If we in the United States don't follow the same pattern, these fellows will force us to do it. This doesn't mean that every American medical center has to open a hospital in India. But Americans need to study these principles and bring them to the United States.

YOU SUGGEST THAT WESTERN COMPANIES NOT ONLY LOOK AT WHAT'S TAKING PLACE IN EMERGING ECONOMIES BUT ACTUALLY SET UP SHOP THERE.

Yes, American companies should be going to these places and creating these opportunities and then bringing them to the United States. If you don't do it, some local company will do it—and disrupt you. Innovation requires really understanding the customer problem, and that implies being close to the customer.

You have to create a dedicated team. If you're going to innovate for India, you need to create a dedicated team *in India*, with R&D, manufacturing, marketing, and supply-chain capabilities—that way they can understand the customer problem. Most Western multinationals try to do the innovations sitting in Milwaukee, with Americans.

DO THEY TRY BRINGING OVER INDIANS WHO KNOW THE TERRITORY OVER THERE?

Indians in Milwaukee are still too far away from the customer. The key is putting boots on the ground.

I was in India a week ago, and I saw a start-up company creating something *very* interesting: a surgical bed for hospitals. Now, they're not saying the cost will be lower than the main supplier—an American company—but they say it will save 40 percent of space. Saving 40 percent of space means being able to serve 40 percent more patients, and those patients will use the hospital's X-ray machine and everything else.

How are they able to save this much space? Because, by working closely with Indian hospitals, they came to understand the customer problem. Typically, after surgery, when the patient is lying in the bed, there's an IV next to the bed, on the ground, occupying space. So they built the IV equipment into the surgical bed. The patient records are kept in a chest of drawers that's occupying space, so they built a shelf underneath the bed for the records. Doctors and nurses need to clean their hands, and the dispenser takes up space in the room, not to mention the time it takes to walk there between

IF YOU'RE GOING TO INNOVATE FOR INDIA, YOU NEED TO CREATE A DEDICATED TEAM ***IN INDIA***, WITH R&D, MANUFACTURING, MARKETING, AND SUPPLY-CHAIN CAPABILITIES—THAT WAY THEY CAN UNDERSTAND THE CUSTOMER PROBLEM.

each patient. So the company built a dispenser into the bed. There's storage space underneath for the patient's clothes and belongings.

My point is: By understanding the customer problem—in this case, that space is the most important value for Indian hospitals—this company has designed a product that solves that problem. It's the kind of fine-grained understanding you cannot have if you simply bring the Indians to Milwaukee.

AND, OF COURSE, THERE'S NO GUARANTEE THAT THE INDIANS WOULD BE WILLING TO COME TO MILWAUKEE.

Maybe New York City.

YOU RECOMMEND THAT MULTINATIONALS "STATION CRITICAL DECISION-MAKERS IN POOR COUNTRIES," WHICH MADE ME WONDER WHETHER ONE BIG OBSTACLE IS THE RELUCTANCE OF THOSE CRITICAL DECISION-MAKERS TO LIVE, EVEN TEMPORARILY, IN POOR COUNTRIES. IT'S NOT LIKE GETTING TWO YEARS IN LONDON.

The moment they go there, they get excited by what they see. These countries may be poor, but they offer depth and interest and varied experiences. When these executives go there, they're pleasantly surprised. You think the quality of life is not going to be the same as going to London, but when you go to India, you are given a big bungalow, instead of a little flat. You have ten servants and a cook and a chauffeur-driven car. The comfort level tends to be quite high.

But the more important thing is what you see and experience in India. It is life-changing.

STILL, IT MUST BE A TOUGH SELL FOR PEOPLE WITH FAMILIES AND ESTABLISHED LIVES IN THE STATES.

Maybe Western multinationals should be recruiting executives for global mindset to begin with. A lot of Americans have traveled quite a bit and have open minds. I have two daughters, both born in this country, and we travel every holiday. My 17-year-old has made ninety trips abroad and been to sixty-five countries. If you recruit someone like my daughter, she is not going to be afraid of experiencing something new.

YOU WANT "THE NEXT GENERATION OF LEADERS AND INNOVATORS" TO BE "JUST AS CURIOUS ABOUT NEEDS AND OPPORTUNITIES IN THE DEVELOPING WORLD AS THEY ARE ABOUT THOSE IN THEIR OWN BACKYARD." PLENTY OF BUSINESSPEOPLE MAY BE CURIOUS, BUT AS A SOCIETY WE SEEM TO BE TURNING INWARD RATHER THAN OUTWARD. WILL THAT HAVE AN IMPACT ON OUR ABILITY TO MAKE THIS TRANSITION?

Without question. Think about all the presidential candidates on the Republican side, and even people on the Democratic side. Everyone talks about three important priorities for the United States: jobs, jobs, and jobs. But they attack the jobs question by saying, "Let us focus on America and American consumers." This is a very insular view, because American companies can create jobs and growth if they focus on poor countries. That's where the growth is, and that growth can be captured only through innovation. So we need to become curious about problems in poor countries.

Americans also seem to have a complex about this—our mindset is stuck in the outsourcing era, with India subtracting jobs, not adding them.

THE OFT-USED PHRASE IS "SHIPPING JOBS OVERSEAS."

Right. I'm not talking about outsourcing jobs to China—I'm talking about innovating for Chinese consumers. We need to understand how that can generate more growth for American companies and more prosperity for America. If we don't talk about this, if we become insular, the result will be economic stagnation and decline. The biggest laboratory for innovation for rich countries is poor countries.

WHEN YOU SPEAK WITH EXECUTIVES, WHERE ARE THEY MOST RESISTANT? AT WHAT POINT DO PEOPLE SAY, "MY COMPANY IS JUST NOT GOING TO GO THERE"?

The resistance is not at the intellectual level. They all get this; they all understand it. They all nod their heads. The problem is in action. The real issue is whether you're willing to make uncomfortable organizational choices by, say, creating a unit in China and giving it a great deal of freedom and autonomy, and shifting the center of gravity of your R&D to Africa. These are tough decisions, and there are competing priorities—if you start doing R&D in Africa, you don't have that money to spend in the United States. People think of it as a zero-sum game. But it's not. You can be in both Africa and the United States.

HOW CAN COMPANIES AFFORD BOTH?

The cost of innovation is much lower; it doesn't take a lot of resources to recruit people in Africa. You don't spend millions and millions of dollars creating innovation—even if most of it fails! The cost of failure is really low.

SO ARE PROFIT MARGINS. IS THERE A POINT IN CERTAIN SECTORS AT WHICH WESTERN COMPANIES ARE JUST NOT COMPETITIVE? IS THERE A POINT AT WHICH IT'S NOT WORTH IT?

That is a fear. But return to the hospital-bed example: That's not about low price or margin—it's about offering something of value. It's not a bottom-of-the-pyramid innovation—it's shifting the price/performance paradigm so your margins can be quite healthy. There are a number of business models you can create in these countries where the margins are fairly high, almost comparable to the United States.

Of course, there will be other innovations where the margins will be under pressure, because the price is too low. So there you need to focus on volume. The bottom line is total profits, and margin is only one part of the equation. And because these are high-growth markets, competition is not going to reduce your margin, because we're not talking about a market-share game here—we're talking about a very vibrant and growing market. There is plenty of room for many, many players to come in.

AMONG THOSE PLAYERS ARE "THE RISING GENERATION OF MULTINATIONALS HEADQUARTERED IN THE DEVELOPING WORLD." DON'T THESE "EMERGING GIANTS" HAVE A BIG HEAD START WHEN IT COMES TO

INNOVATING FOR THOSE MARKETS AND THEN SELLING IN THE WEST?

The biggest challenge for the emerging giants is that they don't have global brands or global distribution. They don't have any assets in the United States; they can't sell without partners. American multinationals don't have that problem—they already have global brands and distribution. Their problem is a mindset problem: They don't want to bring low-priced products into the U.S. marketplace. They're afraid of cannibalization.

SHOULDN'T THEY BE?

Not at first. Companies should aim to bring in a low-price product and position it for a segment of the population that is not currently being served in the United States. Those people aren't being served here anyway. Think of the sixty million Americans who don't have health insurance: If I offer them $2,000 heart bypass surgery, that doesn't do anything to my $100,000 surgery business, because those higher-end customers are insured.

UM . . . WON'T INSURANCE COMPANIES NOTICE THAT THERE'S A $2,000 PROCEDURE AVAILABLE AND REFUSE TO KEEP REIMBURSING $100,000 PER SURGERY?

You're right—ultimately, yes, people will ask why there's such a large gap! And that brings up another point: There is a cost of inaction. NH *is* going to come in and offer $2,000 surgeries, so if you're a hospital here, you'd better do it first. Even though cannibalization is a real issue.

IS THERE ANY DANGER OF FOCUSING ON THE $2,000 SURGERY INSTEAD OF THE $100,000 SURGERY? IN *REVERSE INNOVATION*, YOU NOTE THAT NOKIA ACTUALLY "PUT TOO MUCH EMPHASIS ON INNOVATION FOR THE EMERGING ECONOMIES."

I'm not saying to forget about innovation in rich countries. You can't take your eye off the ball. Nokia focused on China and India and didn't notice that the smartphone market was taking off in the United States, and Apple was there, waiting. It's not either/or. You have to do both. You have to keep your premium-priced, performance-rich, highly sophisticated customer and, at the same time, do innovation for poor countries. It's a big challenge for companies.

APPLE WON'T BE SELLING $5 PHONES ANYTIME SOON, THOUGH.

It is possible to stay at the premium end for some players. Porsche is not going to offer a $2,000 car. But there is a tremendous opportunity for companies that want to participate.

CAN A COMPANY REALLY GO TO MARKET WITH BOTH $200 PHONES AND $5 PHONES?

Absolutely. One way to handle it is with a different brand name, with a different price/performance relationship. Or you can sell through different distribution channels. As a customer, I get confused if I see the same brand selling for $100 and for $10. If you use different channels, you attract different customers.

UNTIL THEY FIND OUT THAT IT'S THE SAME BRAND.

Right! You do have to have some underlying difference in value. The price can't be the only differentiating factor. Otherwise, yes, customers will catch on.

ALL THIS REQUIRES A GREAT DEAL OF RETHINKING—AS YOU WRITE, "YOU MUST LET GO OF WHAT YOU'VE LEARNED, WHAT YOU'VE SEEN, AND WHAT HAS BROUGHT YOU YOUR GREATEST SUCCESSES." HOW DO EXECUTIVES REACT WHEN YOU TELL THEM THAT EVERYTHING THEY KNOW IS GETTING IN THE WAY OF SUCCESS?

No one says to me, "No, you're wrong." At an intellectual level, they agree that they need to abandon some of their assumptions. In practice, they find it difficult, and I don't see very much change taking place. Intellectually agreeing doesn't make it happen. The way to actually forget these assumptions is to shift more power to these countries. That requires taking that next step; that's where the failure is.

SO PLENTY OF COMPANIES KNOW WHAT THEY NEED TO DO AND JUST HAVEN'T DONE IT YET?

There are companies like GE and Procter & Gamble and Pepsico and John Deere that are committed to this. They are pioneers in reverse innovation. But a lot of companies are struggling because they're not able to get over their dominant logic. Remember what happened in the '70s and '80s with Detroit? The Big Three were disrupted when they pooh-poohed players from Japan and Korea. And players from India and China will be fiercer because they'll come in at an even lower price point and higher value. This is a wake-up call. ■

BY GARY HAMEL

WHO WILL

GARY HAMEL is founder of the Management Lab and has been on the London Business School faculty since 1983. Adapted from *What Matters Now: How to Win in a World of Relentless Change, Ferocious Competition, and Unstoppable Innovation* with permission of the publisher Jossey-Bass. ©2012 by Gary Hamel.

IN A DYNAMIC ECONOMY, IS THERE ANY REASON TO *CARE* WHETHER A PARTICULAR COMPANY LIVES OR DIES? TO PUT IT ANOTHER WAY, DOES ORGANIZATIONAL LONGEVITY HAVE ANY INTRINSIC VALUE—FOR SHAREHOLDERS, EMPLOYEES, CUSTOMERS, OR SOCIETY AT LARGE?

If you're a venture capitalist or a free-market ideologue, you'll likely answer "no." I get that. In an open economy, there are a variety of mechanisms that make it difficult for a company to consistently misuse society's resources. Robust competition, a market for corporate control, and a vibrant entrepreneurial sector protect customers and shareholders from protracted bouts of managerial incompetence. When these insurance policies are in place, a corporation that fails to adapt to changing circumstances loses its customers, its best employees, and, eventually, its independence. That's what happened to Sun Microsystems, the once-brilliant company that in 2009 ceded its sovereignty to Oracle.

And if all these mechanisms fail, there's always bankruptcy. Sooner or later, the resources of a perennial laggard get reallocated to more productive uses. In this view, no company dies before its time. In my view, however, the issue of corporate life and death is rather more complicated.

First, many important institutions aren't publicly traded companies: the U.S. Department of Homeland Security, Britain's National Health Service, the European Central Bank, and NATO, for example. For the most part, these organizations have no direct competitors, nor can they be taken over. Within the public sector, there is little that safeguards society from management teams that are less creative and energetic than they should be. Think about the last time you paid a visit to a Department of Motor Vehicles office. How would you rank that experience as compared to, let's say, downloading a Kindle book from Amazon or streaming a movie on Netflix? Without the threat of defecting customers, hostile takeovers, and bankruptcy, the only thing that keeps public-sector bureaucrats on their toes is the surveillance of more senior bureaucrats, who are even further removed from the point of service. The impetus this provides for proactive change is more wet noodle than cat-o'-nine-tails.

SOCIETY BENEFITS WHEN A COMPANY ENDURES—IF IT ENDURES FOR THE RIGHT REASONS.

SURVIVE

Second, the machinery that strips resources from poorly managed companies operates slowly and unreliably. Overly compliant boards often show a remarkable amount of patience with CEOs who fiddle while a business burns, or use a penknife instead of a machete to trim bloated overheads. Consider, for example, how long Jerry Yang was able to hold on to his CEO job at Yahoo, despite his company's failure to reinvent itself around a Web 2.0 business model. Yang even convinced his board to spurn two takeover offers from Microsoft—deals that priced Yahoo at more than twice its current market value.

Read the board minutes of a faltering company, and you'll soon discover there are many ways for nostalgic and pain-averse executives to postpone the day of reckoning. They can erect barriers against hostile takeovers, use rebates and price cuts to camouflage uncompetitive products, dress up retrenchment programs in the rhetoric of bold transformation, or sell off assets to keep moribund businesses afloat.

To put it simply, big companies die slowly. The death throes can last for years, and all the while resources are being squandered.

And then there are the unavoidable adjustment costs, a third reason to be less than sanguine about corporate failure. Reallocating the highly specialized skills and assets of a floundering company is a grossly inefficient process. It can take months or years for displaced employees to find new jobs, and when they do, those jobs will probably pay less than the old ones. It can take even longer to find new uses for idled facilities and mothballed equipment. A laid-off autoworker isn't likely to find a job in Silicon Valley, and an empty car plant can't easily be transformed into gentrified housing.

Added to this are the negative externalities—the costs failing companies impose on society in the form of unemployment benefits, reduced tax revenues, and a general loss of social well-being. To see these costs close up, visit the vast industrial wasteland that surrounds Detroit, a rusted, shuttered, and socially benighted testament to the inability of America's car companies to reinvent themselves in a timely manner. Consumers and competitors win when a corporate dinosaur succumbs to the inevitable. Taxpayers and citizens, on the other hand, must often bear the costs of the funeral.

Fourth, large, established companies are critical to any economy. Young companies are generally less efficient than older companies—they're innovative, but their business processes aren't yet optimized. Moreover, start-ups typically depend on established companies for funding, managerial talent, and market access. Classically, Microsoft's early success was dependent on its ability to harness IBM's brand and distribution power. There's a critical symbiosis between large and small companies. Given all that, start-ups are not an alternative to established companies; they are, however, an insurance policy against the costs imposed on society when large corporations fail to adapt. As is true for insurance generally, it's better to avoid disaster than to make a claim. Silicon Valley and other entrepreneurial hotspots are a boon, but they are no more than a partial solution to the problem of non-adaptive incumbents.

TO PUT IT SIMPLY, BIG COMPANIES DIE SLOWLY. THE DEATH THROES CAN LAST FOR YEARS, AND ALL THE WHILE RESOURCES ARE BEING SQUANDERED.

THE BIOLOGICAL EQUIVALENT OF LARGE-SCALE CORPORATE FAILURE IS NOT THE DEATH OF A LONE POLAR BEAR OR CHEETAH BUT, RATHER, THE COLLAPSE OF AN ENTIRE ECOSYSTEM OR THE EXTINCTION OF A SPECIES.

Those who regard institutional death with equanimity often view businesses as organisms. In the natural world, animals compete for food and mates, and the strong devour the weak. When a lion brings down a gazelle, there are few who mourn the loss of life (other than young viewers of the Discovery Channel). I believe it is wrong, though, to view a substantial company, such as Citigroup, Hewlett-Packard, or Sony, as a single organism. The size and scope of these organizations, and the economic consequences of their success or failure, dwarf that of a sole proprietorship. Thus the biological equivalent of large-scale corporate failure is not the death of a lone polar bear or cheetah but, rather, the collapse of an entire ecosystem or the extinction of a species, events that most biologists would lament.

The ecologists are right about one thing, though: Resilience requires variety—a menagerie of competing ideas where the winners are chosen not by a few sagacious judges but by the collective wisdom of the marketplace. Silicon Valley, a loosely constructed marketplace for ideas, talent, and capital, spawns hundreds of new start-ups every year. Strangely, many organizational theorists seem to believe that tightly coupled social networks—large companies—are incapable of playing the same numbers game; that is, they are incapable of launching a host of new-rules experiments internally.

Out of this prejudice grows the belief that economic resilience is critically dependent on competition between a large number of highly focused start-ups. It should be possible, I think, to recognize the importance of entrepreneurship to economic vitality without denying the value that would be gained if incumbent institutions were dramatically more experimental themselves.

Let's return to our question: Can an organization die an untimely death? Most economists, like venture capitalists, would answer "no." Institutions die when they deserve to die—that is, when they have shown themselves habitually unable to meet the demands of their stakeholders. Yet this crude tautology conceals a more subtle point.

Organizations don't die from "natural causes." They may die from *predictable* causes, but predictable is not the same thing as *inevitable*. There aren't any two-hundred-year-old human beings, but there are a lot of two-hundred-year-old institutions. When organizations die, it is usually from suicide—from the decisions made, and not made, that rendered the institution unfit for the future. Most of us would regard any act of human suicide as untimely (save that, perhaps, of a terminally ill patient). So why should we be indifferent to corporate suicide? We shouldn't, and for the same reasons: It breaks hearts and narrows the future.

Time—years, decades, and centuries—enables complexity. It took millions of years for evolution to produce the mammalian eye and, eventually, the human brain. If some climactic event had destroyed life on Earth in the millennia preceding the Cambrian explosion, the possibility of human reason would have been aborted. Whether anything would have been "lost" by such a catastrophe is a metaphysical question, but the point becomes quite practical when we veer back to the world of organizations. Organizations grow and prosper by turning simple ideas into complex systems—from the idea of mobility for the masses came Ford Motor Co.; from the notion of Internet search came Google.

Yet the process of turning inspiration into value takes time, proceeding as it does through iterative cycles of experiment, learn, select, and codify. If a poor executive decision

LONGEVITY SHOULD BE THE REWARD FOR RESILIENCE, RATHER THAN THE PRODUCT OF PROTECTION.

prematurely interrupts this process, a society may lose the benefit of an inspired idea, if only for the period of time it takes another organization to pluck that idea from the ashes of the failed pioneer.

Imagine, for a moment, that Larry Page and Sergey Brin, Google's founders, had failed in their quest to wrap a revenue-producing business model around their original page-link algorithm. Sooner or later, another upstart would have come along to help us navigate the Web, but in the meantime, an important avenue of human progress would have been closed off. In general, complex things are more valuable to human beings than simple things—a MacBook Air versus a chunk of aluminum, for example. Complexity, though, takes time. That's a fifth reason to be less than relaxed when a company fails to adapt.

There's a final reason to bemoan the death or incapacitation of a once-successful business. Leaving aside the promise of a hereafter, human beings have only two ways of transcending death: by passing on their genes and by building institutions that last. Cambridge University, Microsoft, Toyota, and Amazon: These are vessels into which tens of thousands of individuals have poured their energies and ideas; they are living monuments assembled out of human ingenuity. As such, we owe them the same care and respect we would accord the Egyptian pyramids, the Elgin Marbles, or Salisbury Cathedral. Like curators everywhere, we have a duty to protect what we've inherited, not by propping up failing companies and roping them off from reality but by helping them to change and adapt in ways that will make them evergreen.

Truth is, we *care* about our institutions or, at least, those in which we have invested our skills and passions. The tenured economist who takes a coldly dispassionate view of corporate failure will nevertheless rally to the support of his own university when its future is threatened by administrative incompetence or a funding crisis. We can't expect others to care about *our* institutions if we don't care about theirs, or at least about the health of institutions in general.

Now, before anyone starts fibrillating, let me be clear: I'm not arguing that policymakers should insulate companies from the consequences of executive stupidity. While I don't believe that institutional death is inevitable (in theory, every company could be immortal), I do believe there are many organizations that *deserve* to die, and that policymakers should leave them to their fate. Subsidies (of whatever sort) are expensive and usually ill-conceived. Subsidies and bailouts distort economic decision-making, reward bad management practices, lock in archaic industry structures, and inhibit growth. So I mostly agree with the free-market advocates.

On the other hand, institutional failure can be hideously expensive—in lost competencies, inefficient adjustment mechanisms, and related social expenses. (That's why I thought the Obama administration did the right thing when it threw General Motors a lifeline.) Nevertheless, as a taxpayer, consumer, citizen, investor, and employee, I want to avoid *all* of these costs, and the only way to do that is to help organizations of every type and size to become more adaptable.

Yes, I believe that institutional longevity has value, but I also believe that every organization must continually earn its right to exist—whether it's the local high school, the U.S. Army, or General Motors. Longevity should be the reward for resilience, rather than the product of protection. Although, as a practical matter, some institutions may be too big or too important to fail in the short run, policymakers must never grant any institution immunity from economic Darwinism. ■

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ANGER MANA

IF YOU REALLY LISTEN TO YOUR CUSTOMERS, MAYBE THEY WON'T TURN ON YOU.

IT HARDLY MATTERS HOW MANY DISCUSSIONS AND COMPUTER SIMULATIONS AND RISK REVIEWS YOU UNDERTAKE: MISTAKES ARE INEVITABLE. FORECASTS TURN OUT WRONG, NEW PRODUCT LINES FAIL, CUSTOMER INITIATIVES MEET RESISTANCE, PRICE INCREASES BACKFIRE. NOTHING NEW ABOUT ANY OF THIS.

Except that a massive power shift has changed the equation. In a harsh, unforgiving era that has consolidated and unleashed the awesome powers of social media and a twenty-four-hour news cycle, the public penalty for a blunder that incites a customer revolt has multiplied exponentially. The kind of business move that used to generate mild grumbling and then grudging acceptance now brings immediate denunciations, viral social-media protests, front-page headlines, and the worst fate of all: being made an example of, as a cautionary tale.

Just ask Netflix, Verizon, and Bank of America, which last year faced unexpected customer wrath after policy changes that turned out to be stupendously unpopular. All three companies quickly surrendered and reversed course in ways that observers say have empowered and emboldened consumers for future battles—and similarly bloody victories.

It's critically important to understand what happened to the Three Stooges of 2011 and how your company can avoid similar humiliations. After all, according to a January report from 24/7 Wall St., Bank of America and Netflix—the latter long revered by customers—are now among the "10 most hated companies in America."

Worse, last year's PR debacles represented more than simple bad decisions—they stemmed from a lack of empathy, a failing shared by most companies. In fact, experts from a range of disciplines agree, hardly any companies truly work to empathize with customers. "I'd say it's less than 10 percent," says Anne Morriss,

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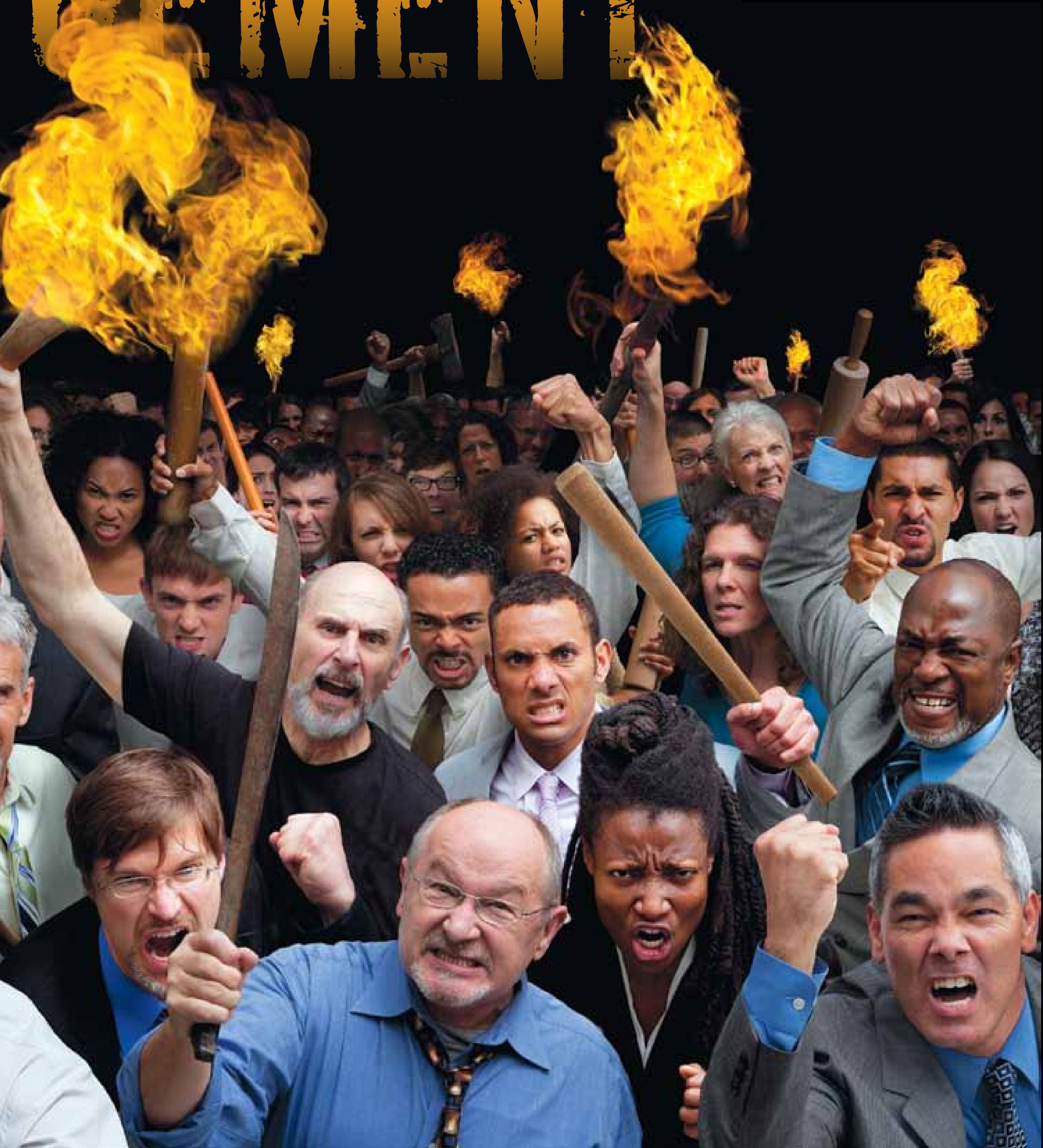
GEMENT

BY JOHN BUCHANAN



managing director of the Cambridge, Mass.-based Concire Leadership Institute and co-author of *Uncommon Service: How to Win by Putting Customers at the Core of Your Business*. "And that's why truly good service is so rare."

Ken Favaro, a senior partner at Booz & Co. in New York, shares the view that a disregard for customers lay at the foundation of all three of the 2011 disasters. "Executives at the three companies weren't thinking about their customers," he says. "That doesn't mean they're stupid. It just means there were other things on their minds when they made these decisions, and those things were treated as a higher priority."

The best example: Bank of America, which sparked a customer revolt when it announced a new $5 monthly fee to use debit cards. "B of A is in a struggle for its life," Favaro says. "It needs to build up its capital position, pronto. It cannot raise capital, so it needs to generate it; if it doesn't, it's toast. So you can imagine how, on a day-to-day basis, they're trying to get more fees through the door. And that means in this instance, they weren't thinking about their customers. They were thinking about survival."

As a result, Morriss says, "they have been listening to analysts, not listening to customers."

And for that, the company faced waves of anger and, a month after its announcement, rescinded the $5 plan. Americans at large—including millions with no dealings with B of A—saw the bank's move as an add-insult-to-injury example of unmitigated greed by a company that taxpayers had bailed out only a few years earlier. By contrast, Verizon got off easy: Its proposed $2 bill-paying fee drew anger from only that company's customers.

CUSTOMERS 3, COMPANIES 0

Netflix faced the same distressing results as B of A: plunging share price, fleeing customers, and wince-worthy headlines along the lines of "Has Reed Hastings Killed Netflix?" But few questioned the company's strategic move, based on the inevitable future of its business away from DVD rentals and toward streaming video-on-demand. The failure was in the execution—remember Qwikster?—and communication with customers.

There were three reasons for the blowback, Favaro says. "The first is that sometimes the hardest part of strategy is your timing. The second lesson is that customer reaction is hard to know a priori, so you have to be very agile and be prepared to take a U-turn if you make a mistake. And the third lesson is that what customers actually do can be quite different from what they say they will do. And that's one of the reasons why it's hard to know what they will do."

Robert Mittelstaedt, dean of the W.P. Carey School of Business at Arizona State University and author of *Will Your Next Mistake Be Fatal? Avoiding the Chain of Mistakes That Can Destroy Your Organization*, is blunter in his assessment of Netflix and its two high-profile co-defendants in the court of public opinion. "It's a matter of arrogance," he says, "in thinking they really understood their customer base—and assuming that they understood them without actually talking to them."

NOT FAVORABLE

LESSON 1: Sometimes the hardest part of strategy is your timing.

LESSON 2: It's hard to know a customer's reaction, so you have to be very agile and be prepared to take a U-turn if you make a mistake.

LESSON 3: What customers actually do can be quite different from what they say they will do.

The issue runs even deeper than that, says Jon Picoult, a Simsbury, Conn.-based customer-relationship consultant. "Many companies and their executive management have become tone-deaf to customers," he says. "And to an extent, that's an issue that a lot of companies have struggled with through the ages. What's different now is that it has become more pronounced as a challenge, because the balance of power between companies and consumers has shifted as a result of the power of the Internet and social media."

And as a result, adds Atlanta-based PR consultant David E. Johnson, "companies have to realize that the business environment has changed. But they haven't yet. And they haven't realized how intense the consumer anger is."

It's not as if they weren't warned. Three years ago, Charlene Li predicted such consumer empowerment in the seminal book *Groundswell: Winning in a World Transformed by Social Technologies*. Today, she sees exactly what she expected back then. "Companies and executives are now on notice that any and all of their policies, their products, anything they do, are open for review," Li says. "That's not to say that any mistake they make will face the same kind of backlash that we saw with these

Companies have to realize that the business environment has changed. But they haven't yet. And they haven't realized how intense the consumer anger is.

three companies. But it does mean that they are on notice that the decisions they make will be scrutinized by the public."

And the public, aided by social media, needs less provocation than ever before to turn on companies with complaints and threats. Last Dec. 29—in the post-Christmas week during which many people are offline and off work—Verizon Wireless quietly announced a plan to push customers toward its auto-pay system by charging $2 for one-time telephone and online bill payments. Enough people noticed and balked that the resulting firestorm drew the attention of the U.S. Federal Communications Commission. On Dec. 30, one day after the announcement, Verizon reversed its decision. (Author and Web entrepreneur Guy Kawasaki notes that the company was proposing penalizing customers for paying online versus by personal check, a costlier alternative: "Instead of charging them, Verizon should have paid them to do that.")

Given their stunning victories over Netflix, Verizon, and B of A, customers are feeling more powerful than ever. "So, if you are a CEO or other top executive, you have to think now about who might be upset about your decision," says Li, who advises companies on how to develop and manage social-media customer relationships. "And you have to think about how to explain it and counter any complaint."

But like Morriss, Favaro, and others, Li believes that only a small minority of senior executives really understand the issue or the risks. "Most of them haven't even really

It's all about relationships. It's about how you explain things to customers or how you talk about a mistake.

thought about it," she says. "And if they have, they think about it as an angry customer on Twitter. They don't think about it as a movement."

"IT'S ALL ABOUT RELATIONSHIPS"

Although the Netflix, Verizon, and B of A incidents span three markedly different industries, they teach a common lesson, says Harvard Business School professor Frances Frei, co-author of *Uncommon Service*. "If the issue is how to get paid for services—with fees, for example—the guiding words should be *simple, transparent,* and *fair*," she says. "And in each of these three instances, the company violated one or more of those principles."

And a common denominator among the violations, she suspects, is an ever-increasing bifurcation of internal responsibility for managing revenues and costs. The more those fundamental perspectives and operational roles become separated, Frei says, the greater the risk—and likelihood—of such disastrous decision-making. To illustrate her point, she cites what happened with Netflix—and compares it to another PR train wreck.

"Netflix was trying to charge for costs they were actually incurring," she says. "So I compare them to what happened to LeBron James in the NBA. He did an admirable thing and gave up the maximum salary to try to form a great *team*. He should have been treated as a hero. But he handled it badly. It was the *execution* that was bad. The same is true of Netflix: They made the right decision, but the way they framed it was disastrous."

Related to that, says Favaro, is the fact that just like Verizon and B of A, Netflix perfectly symbolizes the danger of "springing a decision on customers. People never react well when something is being sprung on them."

And companies continue to spring big decisions on unsuspecting customers despite new channels of communication. Although companies now have an unprecedented platform for engaging and understanding their customers via social media, they are failing to take advantage of the opportunity, Li says. "And one of the reasons for that is that most companies think in terms of *transactions* rather than customers. They don't think of them as people. But what customers want, more than ever, is for companies to understand them and really know them as people."

PREDICTIONS

A TREND TOWARD MORE EXECUTIVES GETTING OUT INTO THE FIELD TO LEARN MORE ABOUT THEIR CUSTOMERS AND WHAT THEY WANT

The good news, she says, is that senior executives are finally starting to understand that a genuine sea change in customer relations is under way. And they're increasingly interested in being taught how to respond.

"The message is that it's not about social media or technology," Li says. "It's all about relationships. It's about how you explain things to customers or how you talk about a mistake. But you have to understand your customers, and your customers have to understand you. Those are the things that define a good relationship. And not a lot of companies really grasp that yet. But now they're working on it."

TREASURE TROVE

Another key element in the equation is market research, a

failures. "These companies might have asked their customers some questions," he says. "But if they did, they didn't ask the right questions. And in the case of Netflix, for example, because they had grown so rapidly and were doing so well, I suspect that their 'research' consisted of them looking at their own subscriber-growth data and making assumptions and decisions based on that, rather than relying on real knowledge about their customers." Mittelstaedt foresees companies investing more resources and time in properly conducted market research that gives executives confidence in their expectations of outcomes.

Jon Picoult predicts that companies will also pay more attention to the technology-based opportunities now at hand. "The irony, to me, is that a lot of companies spend millions of dollars to hire customer-research firms to understand what their customers need and want," he says. "They neglect to look at the treasure trove of information that is right at their fingertips. And among that is the chatter in social media, or the thousands of phone calls they're getting every day. Executives need to look more to those sources for input when they're making decisions."

He also expects to see a trend toward more executives getting out into the field to learn more about their customers and what they want. "And when those executives come back to the office and make a recommendation to the board, it won't be based on gut instinct," he says. "It will be based on thoughts and perceptions that have been shaped by actual experience with customers."

Ken Favaro agrees that field trips will become much more common. "Executives at higher and higher levels within the company will get out there more and more in order to hear firsthand what their customers are thinking," he says. "And we'll even see more discussions with them about the kinds of changes the company is contemplating."

discipline that has been devalued at a time when managers wrongly believe that they can grasp customer sentiments by having a summer intern monitor tweets and Facebook posts about the company's brands.

"In the old days, we had quantitative and qualitative research that was used to make decisions," says Larry Chiagouris, a professor of marketing at Pace University's Lubin School of Business and former chairman of the Advertising Research Foundation. "Nowadays, decisions are being made so quickly that in many companies, management feels they just don't have the time to do these 'classic' kinds of customer surveys."

Robert Mittelstaedt seconds the opinion that a lack of sufficient research played a prominent role in last year's three

POTENTIAL FALLOUT

Even as the risk of a media firestorm has steadily risen, traditional PR departments have lost influence. "In a lot of companies, there is no longer a seasoned public-relations person at the right hand of the CEO," says Jericho, N.Y.-based PR consultant Andrew S. Edson. "Instead, you often have a relatively inexperienced person who has a college degree in PR but lacks that long experience in the trenches that PR people used to have. And even if those veteran people are still around, they no longer have access to the boardroom."

But as a result of the recent hurricanes, he says, "I think with enlightened management teams, you will start to see more PR people sitting at the table when these risky decisions are being made."

Fraser Seitel, who authored *The Practice of Public Relations* and now teaches a graduate course on the history of PR at NYU's School of Continuing and Professional Studies, agrees with Edson. "I think smart CEOs will start to look to get more out of their PR people," says Seitel. "If you're going to have a PR person, you should know how to use him properly. And the CEO has to be smart enough to say to the PR person, 'What do you think, and why?' And he has to be able to discern whether the advice is any good. On the other hand, the PR person has to have the *chutzpah* to stand up and say, 'Look, I understand that this fee is going to add tens of millions of dollars to our bottom line, and I also understand that everybody in this room thinks we should do it. However, this is not an appropriate time politically for this company—and you, Mr. Chairman, in particular—to be sticking their necks out to do something that is going to be repelled by everybody and his brother-in-law as soon as we do it.'"

As a result of such potential downsides, David Johnson says, "we're going to see a lot more analysis of decisions, including with the PR department, before they are finalized and announced. And part of that is definitely going to be an analysis of the potential fallout from the decision."

THE CHIEF CONTRARIAN

Even with increased engagement of PR people in assessing decisions' potential blowback, companies looking to avoid the fate of Netflix et al. must rely on executives to be tougher and more frank in robust consideration of risks before new policies become final and public. "I find it hard to believe that nobody at one of these companies had any sense of the downside of these decisions," Chiagouris says. "But they may have been drowned out by the din of the planning sessions, or been reluctant to tangle with the CEO or some other senior executive who supported the decision and didn't want to hear their opinion. So one question I would have is about the cultures of these companies and how those discussions were handled—and should be handled in the future."

Guy Kawasaki elaborates on Chiagouris's point. "In a perfect world," he says, "companies would not make these kinds of mistakes." However, he says, one reason they do is a "groupthink mentality" in many large organizations. As a result, bad decisions are often inadequately contemplated or vetted. "And that's because at senior levels within companies, there are no longer devil's advocates," he says. "In a large company, a devil's advocate gets thrown out. So what I think is needed today is a new *position* as devil's advocate, a person whose job it is to challenge these kinds of dumb decisions and say, 'Let's look at what we're actually going to be telling our customers here and how they're going to react.'"

Picoult preaches the same sermon but uses a different verse of scripture to describe the critical role. "I advise my clients to appoint a 'chief contrarian,'" he says. "And I agree that in many large organizations today, the notion of being a voice of dissent—and particularly a lone voice of dissent—can be viewed as career suicide. So these companies have ended up with a kind of groupthink approach that leads people to clam up, even though in their heart they feel like, 'Gee, this decision we're making isn't right.' So I think companies have to take that sensitivity about speaking up off the table by actually appointing one person whose job, in all of these discussions, is to be the committed naysayer who thinks about how customers will respond to a given decision."

AWAKENINGS

In the wake of the tsunamis that swept over Netflix, Verizon, and Bank of America, it's not just bad media coverage or a loss of customers that are at stake. As a direct byproduct of what has transpired, boards have started to take note and expand their oversight of management.

"I think the biggest change we're seeing is that boards are starting to wake up and realize that the *marketing* decisions that are being made by the company, not just financial decisions or strategic decisions, are ones that the board needs to start to pay more attention to," says Chiagouris. "And that's also the healthiest thing you could possibly see as a result of these three recent episodes, because boards do need to be more active in assessing marketing decisions, which is something that has never really been seen before. And the point is not to micromanage these decisions, but to send a message to management that marketing decisions are also the purview of the board."

Mittelstaedt agrees that executives will now face more scrutiny. "Rarely does a board fire a CEO for a single mistake or incident," he says. "But things like a disastrous pricing decision or the retraction of a fee just becomes another straw on the stack. It can also be the one that breaks the camel's back. And today, it is becoming more of a factor in the overall equation of whether a person is an effective leader of the organization in the market situation it's in. And a screw-up like the ones we're talking about is bound to have the board questioning whether you're the right person for the job."

Favaro agrees. "Boards are having their feet held to the fire much more intensely than they ever have," he says. "And accountability for both CEOs and boards is higher than it has ever been. Both are feeling the heat. In the event

of a major mistake, boards have to show they're acting."

And even if a major blunder doesn't lead to a pink slip, it can—and likely will—lead to a whack in the wallet. "Boards are compelled to make sure that they are setting compensation in a way that is considerate of the results of the company," Picoult says. "And if you've had a severe PR storm like one of these, I think the board will have a tough time saying, 'Oh, OK, we're still going to give this person a huge bonus.'" In the wake of Reed Hastings' missteps, Netflix's board slashed his 2011 stock-option allowance in half.

And, Picoult says, in the future it won't just be such high-profile mistakes that cost senior executives serious money. Even less-publicized decisions that erode customer loyalty or undermine the health of the enterprise will carry a financial consequence. "In those kinds of situations that have not been

> "Accountability for both CEOs and boards is higher than it has ever been. Both are feeling the heat.

as visible," he says, "it has been tough in the past for the board to see what has really happened and adjust compensation accordingly. But in the future, I think we'll see boards will become more aware of those issues, too, and act accordingly."

LESSONS LEARNED?

What will have been the ultimate impact of the Netflix, Verizon, and B of A smackdowns?

"I very much believe in competition, because it helps to create a form of meritocracy," Frances Frei says. "So I like it when companies like Bank of America or Verizon learn a lesson. Those companies paid a price, and that means that markets are working well. I am deeply, deeply encouraged by that." Says her co-author, Anne Morriss: "The opportunity exists to learn from the experiences of these three companies, because they are very powerful examples of what *not* to do in dealing with customers."

Beyond that, Chiagouris says, is the larger reality—there will be even more second-guessing of executive decisions in the future. "The fact that consumers were *rewarded* for their revolts will encourage more consumers in the future to engage in these backlashes," he says. "But at the same time, we have to hope that companies will become smarter about these kinds of decisions in the first place, so there are fewer dumb decisions that consumers need to respond to."

Seitel is not quite as optimistic. "I don't have great faith that the vast majority of managers are going to take these incidents to heart and change the way they make decisions," he says. "But a manager who *doesn't* learn from what has happened and take seriously the PR implications of every decision he makes is a moron. And if, in the future, they make bad decisions like this, they do so at their own peril." ■

MORE HEAT IN THE PR KITCHEN

It's bad enough that your customers can now challenge your bottom-line business decisions and win. Even worse is the fact that they now want to hold you accountable for your political or social views.

Microsoft discovered that way back in 2005, when its perceived failure to support gay-rights legislation in Washington State led to a formal apology and reversal of course by CEO Steve Ballmer. Last June, TOMS CEO Blake Mycoskie shocked some left-leaning retailers and customers by speaking at a Focus on the Family event. And in December—eight months after its CEO was pilloried for hunting elephants—GoDaddy hemorrhaged tens of thousands of domain registration customers after its support of SOPA legislation came under fire. The company quickly reversed itself.

So, expert observers say, just as companies such as Netflix, Verizon, and Bank of America can pay a steep public price for marketing mistakes, so can any enterprise that riles its customers' political or social sensibilities face a similarly harsh penalty.

"A misstep politically can do as much damage to a company as a misstep in a marketing sense," says Pace University marketing professor Larry Chiagouris. "And consumers have so many options today that it's very easy to switch from one brand to another if you disagree with what the company is doing politically or socially. The point is that companies can retract a pricing decision overnight. It's not so easy to retract a political or social position."

Of course, an argument can be made that, in fairness, a business should be responsible only for its products, pricing, and service, and not its politics. But in the era of social media and the empowerment of customers, that argument doesn't acknowledge reality.

"I don't think it crosses a line of fairness," says Connecticut consultant Jon Picoult. "And that's because when a consumer does business with a company, there are things that go beyond product and price and distribution and really create intense brand loyalty. And very often, that gets into what the company stands for. If you look at companies that have intense brand loyalty, you see things that transcend mere product features or pricing. It's about the larger things the company embraces."

Nevertheless, Booz & Co. senior partner Ken Favaro advises extreme caution in any public discourse. "Executives are not hired to promote their social values," he says. "Management's duty is to the company, not to social issues." His best counsel to executives is based on the adage, "Keep your political and religious views to yourself."

That's sound advice, says PR executive Andrew Edson. "I tell clients you have to be careful what you say and where you say it," he says, "because anything and everything you say today can, and probably will, become public."

Although he disagrees, in principle, with the notion that executives can be lambasted by angry customers for their personal views, Arizona State University B-school dean Robert Mittelstaedt acknowledges that such accountability is indeed a reality of the Internet age. As a result, he says, such controversy and customer revolt will become more rather than less likely. "But the real message here," he says, "is that the world is out of control when it comes to the notion of political correctness."

—J.B.

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BRYCE G. HOFFMAN is a reporter at *The Detroit News*. Adapted from *American Icon: Alan Mulally and the Fight to Save Ford Motor Company*. Published by permission of Crown Business, an imprint of Random House. ©2012

WINNING OVER THE FORDS.

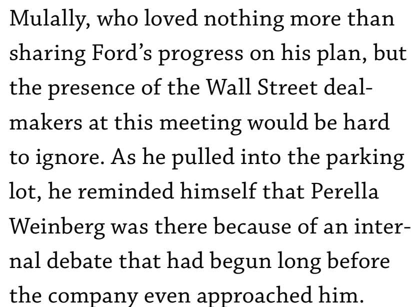
BY BRYCE G. HOFFMAN

ON A PLEASANT SATURDAY IN APRIL 2007, THE HEIRS OF HENRY FORD CONVERGED ON GREENFIELD VILLAGE IN DEARBORN, MICH., TO DISCUSS THE FATE OF FORD MOTOR CO. THEY WERE NOT ALONE. THE PRINCIPALS OF PERELLA WEINBERG PARTNERS, TWO OF THE BEST-CONNECTED DEALMAKERS ON WALL STREET, HAD BEEN INVITED TO ADDRESS THE FORDS. BILL FORD HAD HOPED HIS DECISION TO STEP ASIDE AS THE AUTOMAKER'S CHIEF EXECUTIVE WOULD MEND THE RIFT THAT HAD BEGUN TO FORM INSIDE THE FAMILY. NOW IT SEEMED LIKE THOSE LONG-SIMMERING TENSIONS WERE ABOUT TO BOIL OVER.

As he made the short drive to the museum grounds, CEO Alan Mulally tried not to take it personally. Until now, he had paid little attention to the internal politics of the Ford family. He counted on Bill Ford to keep the peace and watch his back; as a condition of taking the job, Mulally had asked him to handle the Ford heirs and keep them out of his hair. He warned Bill that any interference or public disagreement would jeopardize the "consistency of purpose" that was essential to his turnaround plan for the company.

"You've got to support me 100 percent," Mulally insisted.

Bill had agreed, asking only that Mulally provide his relatives with regular updates on the progress he was making. Ford said these briefings would go a long way toward deflecting the sort of problems he was concerned about. That was not an issue for



Mulally, who loved nothing more than sharing Ford's progress on his plan, but the presence of the Wall Street deal-makers at this meeting would be hard to ignore. As he pulled into the parking lot, he reminded himself that Perella Weinberg was there because of an internal debate that had begun long before the company even approached him.

This isn't about me, Mulally told himself. They just want to know how this is going to turn out.

UNINFORMED OPINIONS

For years, the Ford family had been meeting about once a quarter—often in Dearborn, sometimes in more exotic locales. These gatherings were part social occasion, part business briefing. They always featured what many participants described as "a healthy amount" of discussion and debate. But the intensity of both had increased dramatically since the beginning of 2006. This was partly a function of the deepening crisis confronting Ford and the broader challenges facing the entire U.S. automobile industry. It was also a testament to the proliferation of new media, which allowed the far-flung Fords to follow every twist and turn of their company's travails like never before. Thanks to the Internet, even the most casually engaged members of the family were familiar with Ford's mounting losses, declining sales, and uncompetitive products. They knew that General Motors and Chrysler each claimed to be far ahead of their company in addressing the industry's collective woes. They had no way of knowing whether these statements were true or false, which only added to their anxiety.

It did not help that many of them had never worked a day in their lives and knew little about the car business—or any other business, for that matter. Every setback seemed like a catastrophe. Ford's decision to suspend dividend payments seemed to support General Motors' claim that it was in better shape than Ford, since GM was still paying dividends to its shareholders.

Family members were also getting an earful from their personal advisers. Some had lawyers. Some had financial planners. They all had an opinion about Ford Motor Co., its future prospects, and what those might mean for their clients. However, few of these advisers knew enough to have informed opinions. By the time they arrived at each quarter's meeting, the heirs were bristling with questions.

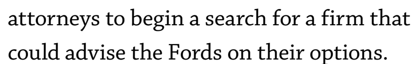
"What's the company doing about this?"

"How does this compare with what's happening in the global industry?"

"How should we, the family, think of these issues that we're reading about and hearing about?"

By spring 2006, these concerns were coming to a head. At the time, the board of directors was actively considering all options, and the family knew it. While most trusted Bill Ford and his cousin Edsel—who was still a member of Ford's board of directors—to look out for their interests, a growing minority worried that they were more concerned about saving the company than protecting the family's investment. They voiced these concerns during the conclave. It was "a particularly spirited session," in the words of one attendee, and it ended with the family asking its

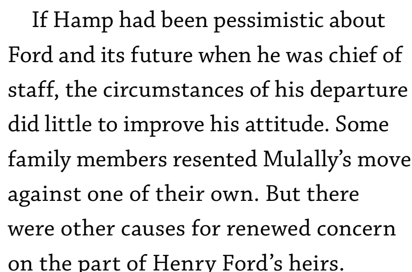
THE RECENTLY CONCLUDED FINANCING DEAL HAD REQUIRED FORD TO MORTGAGE ALL OF ITS U.S. ASSETS. IF THE COMPANY DEFAULTED ON THOSE LOANS, THE FORDS WOULD LOSE CONTROL OF THEIR OWN NAME.



attorneys to begin a search for a firm that could advise the Fords on their options.

The decision to hire Mulally initially seemed to obviate the need for an outside adviser, but the issue was raised once again shortly after he started at the company. Who was stirring the pot? Many pointed the finger at Bill Ford's sister, Sheila, and her husband, Steve Hamp.

In a family such as the Fords, the usual sibling rivalries sometimes escalate into business battles. That was certainly the case between Bill and Sheila. It had long been understood in the family that Ford women would never be appointed to the company's board of directors, let alone to the chairman's post. Friends said Sheila resented this, just as she resented her exclusion from the family's football franchise, which Bill ran with his father. They suggested this made her a more vocal critic of her brother, and that criticism increased after Hamp joined the company as Bill's chief of staff in late 2005.



If Hamp had been pessimistic about Ford and its future when he was chief of staff, the circumstances of his departure did little to improve his attitude. Some family members resented Mulally's move against one of their own. But there were other causes for renewed concern on the part of Henry Ford's heirs.

When Bill Ford took over as chairman in 1999, the family's Class B shares had been worth approximately $2.25 billion. Now they were worth only about $578 million. The bulk of that loss had occurred long before Mulally's name was even discussed in Dearborn, but several family members had hoped the decision to hire a new CEO would spur a rebound. It did initially. However, while Mulally's arrival had boosted Ford's stock price, the rally did not last. By the time the family convened on April 21, the company's shares were trading for less than they had been before his hiring was announced seven months earlier. Then there was the matter of the dividends. Back in 1999, those Class B shares generated $130 million for the Ford family. These payments were a significant source of income for some of Henry Ford's heirs, many of whom also had sizable holdings of the company's common stock. Now they were getting nothing.

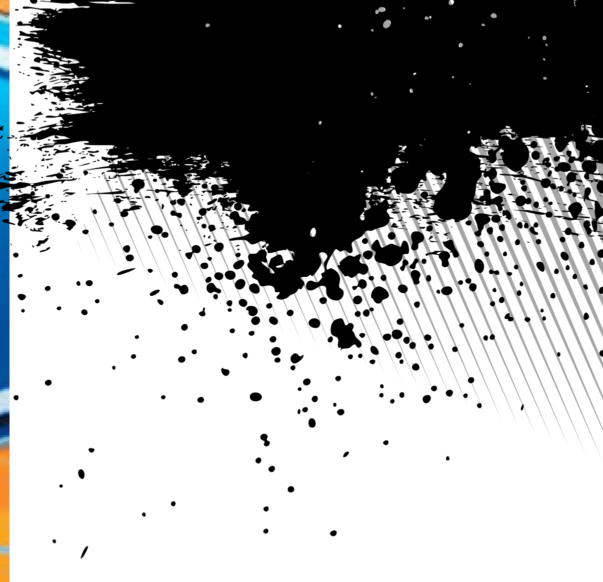
Some were still worried they might end up with less than that. The recently concluded financing deal had required Ford to mortgage all of its U.S. assets. If the company defaulted on those loans, the Fords would lose control of their own name. Of course, they knew that when they approved the deal, but that was before the company posted the largest loss in its history.

KEEPING IT WITHIN THE FAMILY

Identity was important to the Ford family. If the automaker failed, many of them would still be quite wealthy. Money had married money; wise investments had turned small fortunes into large ones. There was land, buildings, and other businesses. But America was full of millionaires and billionaires. What made the Fords different was the fact that they still controlled Ford Motor Co.

Maintaining that control meant maintaining their exclusive ownership of the company's supervoting Class B shares. The ownership structure that Henry Ford II had put in place half a century earlier ensured that the Fords would always control Ford Motor Co. as long as they did not sell those shares. The automaker had issued millions of new shares since its initial public offering in 1956. Now their 70 million Class B shares represented just 3.7 percent of the company's total stock. But they still wielded the same 40 percent of the vote they always had. That was because none of the shares had ever been sold outside the family. If any were, they would convert to regular Class A common stock and lose their supervoting power. And in doing so, they would also reduce the voting power of the remaining Class B shares and break the family's hold on Ford Motor Co.

Not everyone was thrilled with this arrangement. While most employees—even those on the factory floor—welcomed the stability and long-term perspective that the family brought to Ford, Wall Street did not. Most investment bankers and analysts saw the Ford family's continuing control of the company as an anachronism that stymied the sort of speculation that had made them fantastically rich over the past decade. Some investors also objected, arguing that the dual-stock structure diminished the value of their own shares. In just a few weeks, Ford's shareholders were due to vote on what had become a perennial resolution at the automaker's annual meeting to recapitalize the company and make all



> “WHAT THEY REALLY WANTED TO KNOW WAS WHETHER MULALLY’S TURNAROUND WAS CREATING ‘VALUE’ FOR THE COMPANY YET.

shares equal. There was no danger of it passing as long as the family retained its control of all its Class B shares, but the chorus of voices objecting was growing louder. What had begun a few years earlier as a bunch of disgruntled stockholders now included influential institutional investors like the California Public Employees’ Retirement System, which owned 9.7 million Ford shares, valued at nearly $80 million, and now called Ford’s ownership structure “undemocratic.”

Many on Wall Street had been hoping for years that the Ford family would one day split, just like the Gettys and so many other fabled families before them. So far, they had not. But as power shifted from the third generation to the fourth with the ascent of Bill Ford to the chairman’s seat, it was becoming more difficult to hold together what now amounted to a very diverse group of more than seventy heirs. One board member compared it to herding cats.

The fourth generation of the Ford family included Bill and a dozen of his cousins, the great-grandchildren of Henry Ford. Some, like Edsel Ford II, were businessmen. Others, like Alfred Ford, were not. He had joined the Hare Krishnas and changed his name to Ambarish Das. It also included New York socialites like Charlotte Ford, author of *21st-Century Etiquette*, and philanthropists like Lynn Ford Alandt. Increasingly they were joined at family meetings by members of the fifth generation, which numbered more than thirty. Many of these younger Fords had a tenuous connection at best to the automaker. New CEO or not, some of them were beginning to wonder if the money tied up in their Ford shares might not be more profitably invested elsewhere. If just one of them decided to sell his or her shares on the open market, the Ford family’s control of Ford Motor Co. could be threatened.

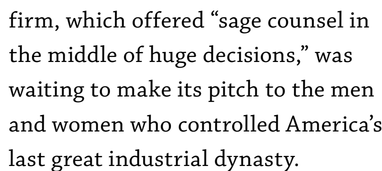
SAGE COUNSEL

Ford family attorney David Hempstead believed it would be a good idea to hire someone with no ties to the company to advise the family. After the spring 2006 meeting, he and family adviser Bruce Blythe began putting together a list of potential candidates. They moved cautiously, because they knew that any report that suggested the Ford family might be considering a sale would have major consequences for the company and its stock.

By early 2007, they had narrowed the field to two or three firms. The first was Perella Weinberg Partners, a “boutique investment bank” founded just a few months earlier by former Morgan Stanley vice chairman Joseph Perella and former Goldman Sachs International CEO Peter Weinberg, to provide corporate advice and asset-management services. They were attractive for a couple of important reasons—the names Perella and Weinberg.

Joseph Perella was widely regarded as an M&A pioneer and a key player in one of history’s biggest corporate takeovers—the 1989 leveraged buyout of RJR Nabisco. Peter Weinberg was the grandson of Mr. Wall Street himself, Sidney Weinberg, the legendary Goldman Sachs leader who had developed Ford Motor Co.’s unique stock structure for Henry Ford II back in 1956.

Hempstead contacted the two men and asked if they would be interested in meeting with the Ford family. They jumped at the opportunity. Now the



firm, which offered "sage counsel in the middle of huge decisions," was waiting to make its pitch to the men and women who controlled America's last great industrial dynasty.

But it was Alan Mulally's turn to speak first.

"WHAT IF ALAN CAN'T GET IT DONE?"

Mulally was still dazzled by the Fords, though their decision to bring in Perella Weinberg certainly tempered his enthusiasm. He tried to put the presence of the two Wall Street titans out of his head as he detailed the progress Ford was making on its restructuring for the family. He assured them that his plan remained on track, despite missing some sales and cost-reduction targets in the United States.

Then he took their questions.

The Fords were respectful, but he could tell that some were concerned about the company and its future. They asked for more information about the terms of the financing deal, seeking a better understanding of what would have to go wrong for them to lose control of the Ford name. They also wanted to know more about his plans for Jaguar and Land Rover now that the Aston Martin deal was finished. Mulally knew that Bill's father, William Clay Ford Sr., drove a Jag, as did many of the other people in the room. So he trod carefully. But what they really wanted to know was whether Mulally's turnaround was creating "value" for the company yet. He took that as code for "When are you going to restore our dividends?" Mulally admitted that might take a while.

Then he left them to it.

The presentation from Perella Weinberg was more general and focused on the firm's bona fides. There was no concrete discussion of the state of the company, no predictions about its future, and no alternatives to staying the course that Bill Ford had charted for the automaker and the family. Those would be offered only if the firm was actually retained by the Fords.

Once the bankers left the room, the real debate began. Family members peppered Bill Ford with questions.

"What if Alan can't get it done?"

"What are the alternatives if it doesn't work?"

If Bill Ford was angry about this challenge to his authority, he did not show it. His voice was calm as he addressed the other members of the Ford family, his argument simple and compelling. The company had carefully weighed all of its options before hiring a new CEO and had concluded that was the best course for Ford. The family's own interests would be best served by following that course and lending Alan Mulally its support. He needed it, and he needed it to be unanimous and unequivocal.

"When the going gets tough, it's time to pitch in," Bill said, "not head for the hills."

He told his relations that he had studied Mulally's turnaround plan carefully. Going over it once again for their benefit, Bill said it represented Ford's best chance at success in many years. He could not promise it would work, but he had faith that it would. Mulally had already proven he could do it at Boeing. Bill said he understood why some in the room might want a second opinion, but he warned them that hiring a firm such as Perella Weinberg to advise the family now would undermine Mulally and everything he was trying to do to save their company.

However, Bill said he would abide by whatever the family decided. He reminded the other heirs of Henry Ford that they had so far managed to remain publicly united. Maintaining unity was essential—now more than ever. He urged them to reflect on the drama then playing out in the Bancroft family. The owners of *The Wall Street Journal*, they were unraveling in the face of relentless advances by media mogul Rupert Murdoch. History was filled with such cautionary tales, Bill reminded them.

"Whatever the family does now or in the future, we're always going to be better off unified rather than divided," he said, urging them to consider what had happened when

those other famous families had fractured and split. "There was never a good outcome. It never ends well."

Then he excused himself and left the room so that they could discuss the matter without worrying about his feelings.

LIVING IT EVERY DAY

At some point in the discussion, someone asked what the family's Class B shares would really be worth if they were sold on the open market, suggesting it might be time for the Fords to cut their losses and get out while they still could. For many in the room, this was crossing a line.

Elena Ford was one of them.

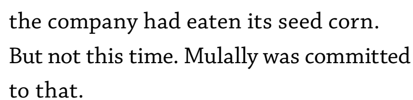
The daughter of Charlotte Ford and Greek shipping magnate Stavros Niarchos, she was born Elena Anne Ford-Niarchos in 1966. She dropped the *Niarchos* and eschewed the glamorous New York society life of her mother and siblings for the smoky factories and sharp-elbowed corporate politics of Dearborn. With her plain appearance and blunt manner, she fit right in. Though the fortune she inherited from her father made her wealthy even by Ford standards, Elena was no pampered debutante. A self-described "car freak," she asked for a Mustang for her sixteenth birthday. Now in her 40s, she still drove one—often to lunch at Miller's Bar, a favorite Ford hangout a few miles down Michigan Avenue from World Headquarters that was famous for its greasy burgers. After joining the automaker in 1995, she began a grand tour of the company typical of the Fords who decided to work there—starting as a communications coordinator for Ford's truck division and making a rapid ascent up the corporate ladder, including brief stints as a finance specialist in product development, brand strategy leader in global marketing, director of business strategy for Ford's international automotive group and director of product marketing for the Lincoln Mercury division. Now she was director of North American product marketing, planning, and strategy.

FOR THE FIRST TIME IN ITS HISTORY, THE FORD FAMILY HAD BEEN FACED WITH A REAL THREAT TO ITS UNITY AND TO ITS CONTINUING CONTROL OF THE COMPANY.

Unlike some of the other Fords who had taken jobs at the company, Elena had a reputation for being a tireless worker. She was eager to prove herself, but she was also passionate about the company. It was the first place she ever felt she really belonged, and she took immense pride in the respect its employees had for the Ford family. During her time in Dearborn, Elena had developed a respect for her co-workers, too, as well as a modicum of disdain for her relatives who chose to live off their inheritances and did nothing to contribute to the company's success.

Elena's strong emotions for Ford and its employees were evident as she rose to address her aunts, uncles, and cousins at the family meeting. "I work inside this company, and I believe in it," she began with characteristic directness. "The people who don't work here have to trust the people who do work here."

Part of Elena's responsibilities included powertrain and product planning. That meant she was more aware than most at Ford of the new products already under development, along with a new generation of engines that promised to get more power out of less gas. These were game-changers, she said, and Ford was committed to bringing them to market even if it had to make deeper cuts to pay for them. In the past,



the company had eaten its seed corn. But not this time. Mulally was committed to that.

"It's going to be tough, and it's going to be hard, but we are going to get through it," she insisted. "We have the expertise. We have the product."

Elena choked up when she turned to the family's obligation to the company's employees: "You've *go*t to believe in this company, because the people who work here are so dedicated and so intensely proud that they *will* do everything in their power to make it work," she said, adding that she had already lost many friends to layoffs and seen others quit because they had given up hope before Mulally was hired. "If you don't live it every day, it's hard to understand. It's not about whether Ford can be saved or not. We have no choice!"

As for the idea of selling out, Elena wanted no part of it. She understood why some of her relations might be uneasy about the challenges still facing Ford. She knew that many did not work for a living and had much of their wealth tied up in a company that had stopped paying dividends and offered little prospect of resuming those payments anytime soon.

"I know times are tough, but this company is going to succeed. I'm going to continue to support it, and I think you should, too. If you don't, that's fine—but I don't think you're making the right choice," she said, reminding them that she and others in the room were more than willing to purchase shares from any family member who needed cash or who no longer had the stomach for it. "I believe in the company, and I'm going to support the company."

By the time she sat back down, at least a few in the room were dabbing their eyes. Several of Elena's relatives came up afterward and thanked her, including her cousin Bill, who had been told of her impassioned plea.

THE INVISIBLE HAND

Bill's father also opposed bringing in Perella Weinberg or any other investment bank. William Clay Ford Sr. was the family's patriarch—the last of Edsel Ford's children, which also made him the last of Henry Ford's grandchildren. He also was the largest individual holder of the family's Class B shares. At the time, he owned 11.1 million of them, worth $90.6 million and accounting for 15.63 percent of the total. It was a tiny fraction of his immense fortune, which also included a significant chunk of the company's regular Class A shares. He was the invisible hand behind his son's rise to power, and if he said no to something, most of the other family members were not likely to say yes.

Bill also received strong support from his onetime rival for the Ford throne, Edsel Ford II. Hank the Deuce's son had been outmaneuvered by his cousin in the 1990s, but he had taken his defeat gracefully. Though he remained on the board of directors and was the family's designated liaison with the company's dealers, he quit his day job at Ford and bought Chrysler's corporate-jet division, Pentastar Aviation, which he turned into one of the region's largest jet charter companies. Edsel also became a major force in Michigan philanthropy, representing both the family and the company in the community. It was an important role, and he excelled at it.

Edsel controlled more of the Class B shares than anyone other than William Clay Ford Sr., owning 4.18 million, or 5.89 percent, as well as a substantial number of publicly traded Class A shares. More important, he, along with Bill and his father, controlled the family trust that held the vast majority of its stock—51.7 million shares that were voted as a bloc.

Edsel was traveling and could not be present at the meeting, but he wrote a two-page letter that was read aloud there, urging his relatives not to hire Perella Weinberg, asking them to instead give their full support to Bill and Mulally.

With the biggest shareholders rallying around Bill, and his cousin Elena ready to buy the shares of anyone who did not believe in the company's future, the dissent was squelched.

There are no votes at Ford family meetings. The emphasis is on consensus, and by the end of the session one had been reached: If anyone could save Ford Motor Co. and the family's legacy, it was Alan Mulally. His plan was the right one, and the heirs of Henry Ford owed it to Mulally to give him the time and the space necessary to execute it. They all agreed that hiring an outside adviser—particularly one with a reputation as a Wall Street dealmaker—was a mistake.

Bill Ford breathed a long sigh of relief that night. For the first time in its history, the Ford family had been faced with a real threat to its unity and to its continuing control of the company. But he had held it together. Some shares would exchange hands, but not outside the family. In the months and years ahead, he would face persistent questioning from his relations about the resumption of dividends, but he would never again face a direct challenge to his authority, or to Mulally's. ■

BY MICHAEL E. RAYNOR

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ADVICE ON GOOD ADVICE

Why much of the guidance we receive is anything but.

IDENTIFYING THE DRIVERS OF SUPERIOR LONG-TERM PERFORMANCE IS A SUFFICIENTLY FUNDAMENTAL QUESTION TO HAVE SPAWNED A GENRE OF BUSINESS BOOKS. These "success studies" seek to uncover the causes of success by studying companies that have succeeded.

What do we have to show for the collective efforts of the researchers in this space? Rather less than one might hope, I fear. The reason lies not in the possibility that some of the prescriptions for action might not be right but, somewhat ironically, that all too often none of these prescriptions could ever be wrong.

To see what I mean, imagine a conversation with a financial adviser who suggests you buy Acme Inc. stock because Acme's best customer, Wile E. Coyote, has just come into some money. Is that good advice? After the fact, of course, the substance of the advice can be evaluated relatively unambiguously: Either the stock went up as predicted, or it did not. That, however, is an evaluation of the outcome, not the advice itself. I do not mean an assessment of the analysis that went into the recommendation, either—you could run laps on that all day long. I mean: How would you evaluate the advice *as advice*?

Consider now an adviser who says that you should buy stocks that go up, not down. Is *that* good advice?

In the first instance, you can imagine circumstances when you might not buy Acme Inc.—say, if the Coyote had finally caught the Road Runner last quarter. Nonetheless, the basis for the advice is falsifiable. In addition, you can determine unambiguously whether or not you have taken it: Either Acme is in your portfolio or it is not. That makes the advice actionable.

In the second case, the advice is neither falsifiable nor actionable. Presumably, one always wants to buy stocks that go up; under only relatively contrived circumstances would one want to go long on stocks that go down. And since no one can reliably predict stock price, you cannot know in advance whether the stocks you buy are consistent with the advice you have been given. Good advice, then, must be falsifiable and actionable.

With this high-contrast example in mind, consider some of the advice that popular management research offers. (The examples here are all taken from credible business books that represent the state of the art in the field, even though each has enjoyed a different degree of commercial success. It would serve no purpose to give the titles: If you have not read them, the additional specificity adds little; if you have read them, you will recognize their prescriptions.)

One researcher tells us that a key to long-run performance is confronting the brutal facts. Does this advice sound more like "buy Acme Inc." or "buy stocks that go up"? Consider our first criterion: falsifiability—that is, would one ever opt for the contrary? In perhaps the same way one might contrive a reason to buy stocks that go down, one could perhaps gin up circumstances in which hiding from the truth and self-delusion might be advisable, but it does seem a stretch. (Note that the advice is not to tell the truth to others but to face the truth yourself.)

What about actionability? Of all the facts worth confronting, this advice directs us to pay special attention to the brutal facts. But which facts are those? The "brutal" qualifier connotes *unpleasant* and perhaps also *important*, but these adjectives do not help much, since we lack an objective, reliable way to assess whether facts are indeed unpleasant or important.

This is not to say that confronting the brutal facts—any more than buying only stocks that go up—is bad advice. But it fails both tests that good advice must pass.

Recommendations that fail these two tests are remarkably common. Take, for example, the admonition that a successful strategy must be clear and focused. I cannot speak for you, but I know of no one who ever believed a muddled and diffuse strategy was a good idea. Nor do

I know of anyone who ever crafted or sought to implement a strategy they felt violated these principles.

Or what about the suggestion that sustained success depends upon finding a big enough market insight? It fails the falsifiability test—who would ever want a market insight that was not big enough?—but it could still be of some use if accompanied by even a solid probabilistic foundation for determining whether a given market insight passed muster. Unfortunately, whatever anecdotal evidence might be adduced illustrating the requisite characteristics, reliable litmus tests remain elusive.

Examples of this sort of advice are in distressingly ample supply as well: Get the right people on the bus. Be agile and disciplined. Be specific, methodical, and consistent. Do not abandon your core prematurely. As opposed to what? Getting the wrong people on the bus; being sclerotic and unruly; being vague, feckless, and fickle; and should you ever do anything prematurely?

Such criticisms can seem petulant. After all, many practicing managers have many very nice things to say about each of these works. If the proof of the pudding is in the eating, is that not evidence enough that the findings are somehow "right"? The consequences of using these ideas must surely count for far more than some alleged flaw that matters mostly to nitpicking eggheads.

However, like the advice itself, claims of practical utility fail as science. I know of no systematic attempt to demonstrate the efficacy in use of any framework described in any major success study. In the absence of hard evidence, it is far more likely that whatever benefit practitioners might have perceived or realized has been the consequence of some or all of a form of placebo effect (you expect it to help, so you perceive that it does), a Hawthorne effect (the mere act of focusing on something you were neglecting improves performance), or random variation (otherwise known as luck).

The general tendency to offer Spike Lee-like advice ("do the right thing") not only undermines the usefulness of any individual study, it also hobbles the field as a whole. In most disciplines, one is compelled to take account of the advances, however minor, of previous investigators. Yet as far as I can tell, none of the researchers in this field do much in the way of building on previous work. Instead, depending on their level of fame, success-study authors either ignore all previous work in the field, save their own, or with an oil-and-water admixture of pointy elbows and collegiality, point out flaws or limitations in other researchers' methods and then explain how their approach solves those problems.

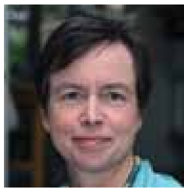
As a result, every new research project starts over from scratch, it seems, with its own definitions of great performance, its own sample, its own clinical research method, its own secret sauce. Each new effort yields its own framework, set of priorities, and prescriptions for action. The result is a cacophony of voices shouting contradictory or at least incompatible directions and a forest of fingers pointing down different putative paths to success.

A cynic might observe that success-study authors are often competitors for not only the fame that comes with a breakthrough business book but also for the consulting work that often attends such success. As such, there may be a desire to ignore others' works for fear of seeming to lend credence to it and therefore diminishing the importance of one's own contributions.

I find this unconvincing. If any success study had managed to lay a firm cornerstone for subsequent research, the imperative to have something *useful* to say would trump the desire to have something *new* to say. The marketplace for ideas is far from perfect, but over the long haul it is sufficiently efficient that the cream, if it be there, does eventually rise to the top.

But as Hamlet put it, "Ay, there's the rub." There has to be some cream in the milk to rise. And when the prescriptions for action are consistently neither falsifiable nor actionable, then (at the risk of torturing the metaphor) we have been churning a bucket of skim. In other words, success-study researchers do not build on each other's works because there is nothing solid enough upon which to build.

In short, the next time someone offers you advice, ask yourself these two questions: Can I imagine the opposite ever making sense, and will I know if I've acted on it? If the answer to either one is "no," you're at grave risk of being led astray. And that is good advice. ■



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WHAT THE %#!& ARE YOU TALKING ABOUT?

Why does the corporate world continue to mangle language?

AS UNEMPLOYMENT SOARS AROUND THE WORLD, WE'RE HEARING A COMMON REFRAIN FROM THE BUSINESS COMMUNITY: Young people lack the skills needed for the world of work—in particular, how to communicate. Half the managers in a recent survey by the U.K.-based Chartered Management Institute complained of young recruits' poor communication skills. But who will teach them to speak clearly and concisely? Surely, it won't be the same business managers, analysts, and internal-communications people who persist in bombarding and baffling us with increasingly mind-numbing management-speak.

For example, a document from a financial-services company recently came across my desk, apparently making the case that the organization was a good employer. It was packed with empty and pointless terms such as "ethos," "going forward," "business-led interventions," "industry best-in-class," and "in-person team cascades." I was unimpressed. More than that, I was suspicious. Was this insubstantial prolixity designed to cover up an "employee offering" that was so ordinary as to be unworthy of the paper on which it was written?

Before decrying the good communication skills of the young, business should get its own house in order. We desperately need a return to straightforward language at work—and not only so that young people have good role models. English is the global language of business: If even native speakers cannot understand what is being said, how much greater the risks of miscommunication among non-native speakers?

Good communication is also at the heart of good management. Sometimes, bamboozling language is unintentional, but often, it's an attempt to conceal a lack of real content and to make one sound cleverer than one is.

There's another reason why we must strongly challenge business buzzwords and phrases that serve merely to obfuscate. People have complained loudly for decades about corporate-ese, but in recent years the annoyance has taken on a darker tone: We should have learned from the Enron and WorldCom scandals and the 2008 financial crisis that fancy words can obscure castles built on sand. By speaking confidently in ways that few people understood, the organizations involved succeeded in concealing from the world the immensely harmful truths about their practices.

It's human nature to want to cover up a lack of understanding of apparently sophisticated things. But this leads to perverse outcomes, as Hans Christian Andersen's enduring tale of "The Emperor's New Clothes" attests. In business, it may even be that the more complex the language, the more respect it attracts. A 1980 paper by Wharton's J. Scott Armstrong published in the Institute of Management Sciences journal *Interfaces* found "modest support" for the hypothesis that management scientists gain prestige by writing unintelligibly.

It's going to be tough to correct business-speak, most of which is just plain ugly, sapping the energy from corporate communication. Such phrases creep in and spreads insidiously; few of us are immune. To fight for this worthy cause, I have categorized some of the most overused offenders:

USE ONLY IF YOU'RE AT A LOSS FOR WORDS

Capabilities and competences: These are deeply embedded in human-resources jargon, but what do they really mean? I understand "competence," but what are "competences," and are they spelled like that or "competenc*ies*"? The University of Cambridge's Institute for Manufacturing offers the following definition: "Capabilities and Competences: Capability-based strategies are based on the notion that internal resources and core competencies derived from distinctive capabilities provide the strategy platform that underlies a firm's long-term profitability." Er . . . so that's clear then. Whatever happened to "skills," "strengths," and "the things we're good at"?

C-suite/C-level jobs: Beloved by business consultants and writers, these hyper-American terms reinforce fading corporate hierarchies and exclude the uninitiated. A less loaded substitute is "senior managers."

Deliverables: This project-management jargon sounds terribly important, but it's really just an adjective with an "s" on the end. What's wrong with "outcomes"?

Drivers: Fine if the drivers have registration plates, but the expression is overused in HR-speak, as in "the drivers of employee engagement." I concede that this word has few concise synonyms, although "motives" is a good one.

Learnings (often preceded by *key)*: Like its ungainly cousin, "takeaways," this is another example of self-importance. Both mean "lessons"—but that sounds too much like sending businesspeople back to school, which is where they ought to be if they talk like this.

Reaching out: An increasingly popular American export, it is in the same vein as "unpacking ideas" and "sharing with," which together conjure up an image of a jolly summer get-together with good friends whom you like hugging.

I've also noticed a growing tendency to run nouns or verbal nouns together, rather as in German but with much less sense. I'm guessing, for example, that a "process design document" is a "written plan," and that "managing resourcing scheduling" means "finding enough people to cover the work." But I'm lost when it comes to "leadership advocacy," and as for "workplace propositions," it sounds more suited to the red-light district than the HR lexicon.

USE ONLY IF YOU ACTUALLY MEAN WHAT YOU'RE SAYING

Ahead of: I may be ahead of you in the Scrabble game, but in most business settings, the better word is "before."

At the end of the day: Generally meaningless, as when I overheard one businessman say to another on the bus to a dawn flight: "At the end of the day, you've got to get up really early in the morning."

Best-in-class: OK for cat, dog, and horse shows. Or for schoolchildren who communicate well.

Going forward: Fine if you're driving a car, unless you want to reverse. Otherwise, "in the future" is infinitely preferable.

Icon/iconic: A religious image, typically of a saint; we've sadly degraded this term, as in "the iconic high-street retailer."

Timeline: Fine if there really is a timeline, but not if you simply mean "time," as in "the timeline on the transaction is fairly lengthy."

USE NEVER

Corporate DNA: This does not exist.

Corporate narrative: If you mean "our company's history," say so. If you mean there's a single story about what's going on in your company, there isn't. There are many stories. (Watch the remarkable novelist Chimamanda Adichie on TED Talks describing the danger of a single story.)

Leverage: Another noun that has been turned into a verb. Say "use" or "exploit" if that is what you mean.

Outside the box: And anything else inspired by the office stationery cupboard, including "on the same page" and "pushing the envelope." I've never understood why this last one made it into circulation when "securing the strategic staple" and "pushing the paper clip proposition" did not.

Passion: There's just so much of it that it has lost all meaning. If you want to show enthusiasm, do it with more imaginative language.

Solutions: These days, we're bombarded with "connectivity solutions," "food solutions," and "software solutions." I thought I might invent one called "end-of-life solutions—for all your funereal needs." But I found out that a Dutch organization had already beaten me to it. Its website states: "Aircraft End-of-Life Solutions is a company that develops end-of-life strategies and executes the resulting solution for aircraft owners all over the world." For me, the nail in the coffin was discovering that the company offers a "unique End-of-Life Decision Tool." ■

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CRIMINAL, PAST

Your job candidates smoked weed and shoplifted years ago. Get over it.

I HAVE A CONFESSION TO MAKE: I HAVE NEVER BEEN ARRESTED.

Long before the days when it became trendy for suburban girls to pierce their faces and break their fathers' hearts, I affected my own ridiculous persona and raged against the machine. I shaved my head, wore stupid clothes, and generally tried to cause as much trouble as possible. I feel very fortunate that I have never run afoul of the law. While in my current job I write safe articles about employee engagement and HR consultants, I still have the ink and piercing scars to prove that my parents should have sat me down where I belonged: in the corner of a library with my Catholic-school uniform on.

Just recently, *The Journal of Pediatrics* reported that nearly one in three kids has been arrested at least once for a non-traffic offense by the age of 23. That's right: 30 percent of young people will have faced police handcuffs at some point.

Read that again. Does that number surprise you? It stuns me.

The new data represents a significant increase from a previous study, conducted in the mid-1960s by criminologist Ron Christensen, who found that 22 percent of youth would be arrested by age 23. I asked Nick Fishman, the founder and CMO of Employee ScreenIQ, which conducts background checks on candidates, why the number of arrests of children has risen over the past forty years. "Back in the 1990s, President Clinton appointed Barry McCaffrey as the director of the Office of National Drug Control Policy," he explains. "The war on drugs was in full effect, and there were also more cops on the street. There was a significant increase in the number of arrests and convictions for so-called minor offenses such as marijuana use."

So more kids have been busted for smoking pot and underage drinking than ever before—and now those kids are all grown and applying for full-time jobs with global corporations. How much of an impact should an arrest, even without a conviction, have on your hiring decisions? Should you employ someone who was arrested for smoking weed as a kid? If you're a retailer, what do you do with a job candidate who was arrested earlier in life for stealing clothes at Forever 21? Most importantly, how do you manage a workforce in which young kids with a history of making mistakes are now adults whom you'll potentially entrust to lead important and critical projects at your organization?

The answer is that life gets a little more complicated for everyone. HR professionals often ask candidates to submit themselves to a background check, which starts with the verification of education and work history but can include a review of criminal activity, including arrests that never yielded convictions. Almost always, employers charge third-party vendors with conducting such checks.

Who are these vendors? Some of the less expensive ones are based in the cloud and offer the services of a nameless, faceless algorithm—based on a keyword match—that will search publicly available criminal-court databases to locate a match and alert the employer to a potential risk. Sometimes an arrest will surface; sometimes it won't.

Fishman, aware that criminal-history reports are inconsistent depending on the jurisdiction, sends his employees and emissaries into county courthouses across the country with the goal of pulling records and verifying a candidate's veracity and character. It is a labor-intensive job, but it yields the most comprehensive and accurate review of an applicant's background.

That's good news for you as an employer if you want to mitigate risk and ensure hiring dependable and trustworthy individuals. And what organization doesn't? But it is bad news for the poor guy who is trying to hide the fact that

“ 30 percent of young people will have faced police handcuffs at some point.

he was once arrested for rolling a joint at a high-school party back in 2002 and has been clean ever since.

When the results of a criminal background check are in—good or bad—there is often an HR rep who reviews the information and makes the final determination as to the candidate's job eligibility. The encouraging news for applicants with criminal pasts is that HR workers usually screen differently depending on the open position. A CEO or CFO would undergo a more stringent investigation than an administrative assistant, an engineer, or a nurse.

The hearts of HR professionals aren't as cold as you might think. HR personnel often use discretion and leeway to interpret arrests and convictions in different ways. For example, Lisa Rosendahl, a Minnesota-area HR director, evaluates each instance within the context of a person's entire record (or lack thereof). “When making a suitability determination, we consider factors, such as conduct, as they relates to the nature of the position,” she says. “If we are screening for a retail clerk, shoplifting is considered. If we are hiring for a truck driver, reckless driving and speeding are appropriate flags.” HR employees also might examine other variables: the nature, seriousness, and circumstances surrounding the conduct, as well as recency and age at the time of the arrest.

That's great, but how does this play in Peoria where candidates who once made a mistake are now trying to find employment and housing in the midst of a bad economy? I spoke with Melissa* (you know why it's there), a 25-year-old woman who lives in the suburbs of Washington and was arrested—but not convicted—for embezzling from her retail job when she was a teenager.

“It was shoplifting, but it was over a certain value, so they got me on a technicality for embezzling,” she told me.

Life is all about technicalities, isn't it? This young woman worked out a plea deal and was able to have the conviction, but not the arrest, removed from her record after completing community service and remaining out of trouble for a significant period of time. Unfortunately, many years later, Melissa is one of the 18.5 percent of Americans currently underemployed—working a series of temporary and retail jobs while still living at home with her kind and patient parents. I asked her if she felt that her arrest was getting in the way of finding sustainable, meaningful employment.

She responded, “I can't say one way or another. I have been close for a few jobs, but the offers fell apart. I do know that I was just turned down for a promotion from temporary to full-time because of the arrest.”

She added, unnecessarily: “It sucks.”

Sure, you may find it unsettling to know that the general candidate pool is mucked up with young adults who have faced personal challenges and previous run-ins with the law, but there is some piece of mind: According to John Paul Wright, a researcher who studies juvenile delinquency at the University of Cincinnati's Institute of Crime Science, the vast majority of kids who were arrested will never be picked up again. I also think it is important to remain optimistic and demonstrate both hope and faith in the enduring ability of the human spirit. Not all kids who are arrested will suck as employees. Many of them will exceed your expectations. ■

SIGHTINGS

A HEAVY BURDEN

TWELVE BILLION. That's the number of bricks that Bangladesh produces each year. Unfortunately, the bricks are important not only for what they build but for what they destroy: lives, families, and the environment. The industry employs about 1.2 million people, many of them women and children who endure extreme conditions working at the nation's eight thousand kilns.

But you don't have to toil at a kiln to suffer from its effects. In the city of Dhaka, for example, where the photo above was taken, kilns burn car tires, low-grade coal, and firewood, spewing into the air dangerous pollutants—ten times the maximum amount set by the World Health Organization. The tiny size of the particles makes them particularly hazardous to health. In fact, in Dhaka alone, an estimated fifteen thousand people annually die prematurely partially due to the poisonous effects of the area's 1,200 brick kilns, which makes Dhaka among the world's most polluted cities.

Meanwhile, half of the Bangladesh's kilns operate illegally and do not comply with (largely unenforced) environmental standards. The 350 tons of wood that each kiln burns a year are chopped from the country's forests, which shrink by 2.5 million hectares annually. At this rate, the forests will be gone in twenty-five years.

Most of the kilns still use 150-year-old technology developed during a time when saving money trumped saving the environment. It takes about twenty-three tons of coal to produce 100,000 bricks in Bangladesh, against only eight tons in China—China! But things are changing: The country is slowly adopting cleaner kilns that emit less smoke and demand less energy. As a result, the industry is gaining efficiency and reducing its negative environmental and social impact. Brick by brick, Bangladesh is building a more sustainable future. —VADIM LIBERMAN

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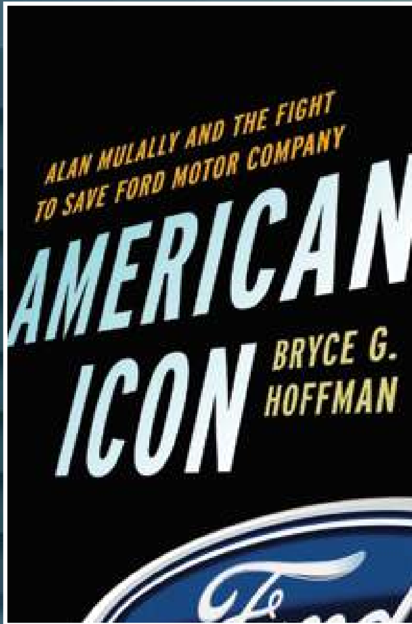

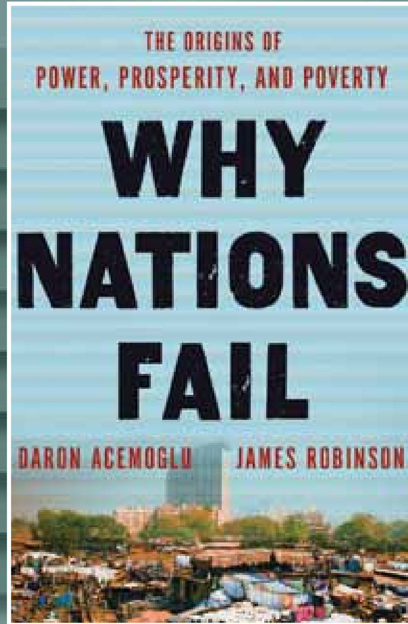

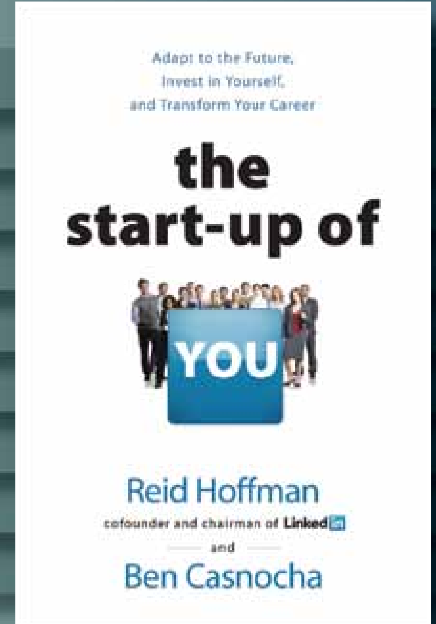

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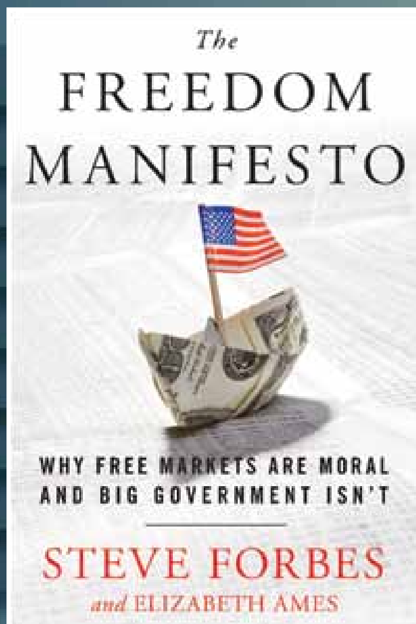

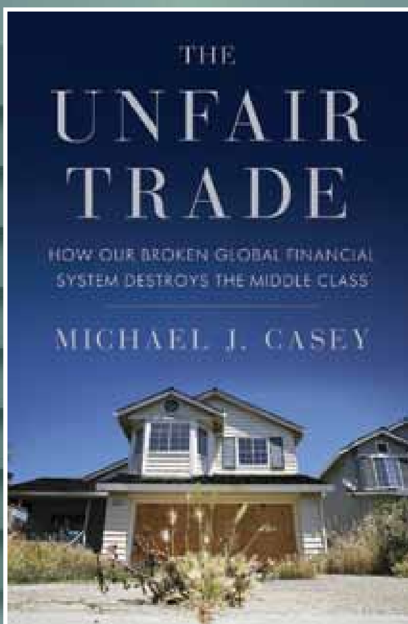

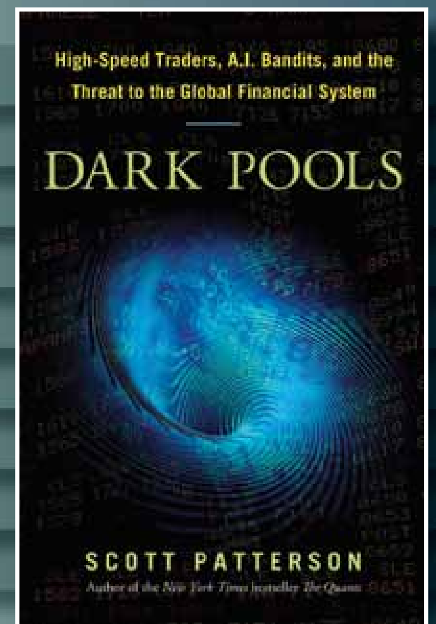

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