THE CONFERENCE BOARD REVIEW

IDEAS AND OPINIONS FOR THE WORLD'S BUSINESS LEADERS

"JUST SAY NO"

IF ONLY FIGHTING BRIBERY WERE THAT SIMPLE.

MICHAEL MOSS EXPLAINS WHY WE CRAVE SALT, SUGAR, AND FAT

THE SHORT-TERM TYRANNY OF THE QUARTERLY REPORT

1ST RULE OF TOP PERFORMANCE: "BETTER BEFORE CHEAPER"

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IT GOES WITHOUT SAYING THAT BRIBERY IS WRONG AND BAD AND HURTS BUSINESS IN BOTH THE LONG AND SHORT TERMS. It hurts companies that participate in corruption; it hurts economies that tolerate it. But as senior editor Vadim Liberman writes in this issue's cover story, eradicating bribery requires more than HR posting a policy on the intranet.

Some bureaucracies, particularly in the usual-suspect countries we all know, are largely built on corruption: They underpay workers and then look away when those workers begin to squeeze money out of anyone willing to pay a little extra to make the system function. Soon nothing gets through the system at all unless there's grease helping it through.

So when a Wal-Mart executive with a mandate to expand the company's reach in Mexico is made to understand that permits won't be granted unless a certain envelope changes hands, does she fill the envelope and hand it over? Or does she adhere to that forgotten memo, leave the official empty-handed, and guarantee that Wal-Mart's permit process will slow to a crawl—if the permits are granted at all? What looks like a no-brainer decision is anything but.

In "Just Say No?", Vadim looks at how real executives should handle these difficult situations and how they *do* handle these difficult situations, along with how companies and governments are working to stamp out bribery—or, at the least, to create a business environment in which executives don't find themselves in those no-win situations.

ALSO IN THIS ISSUE, John Buchanan argues that executives and boards should ignore investors' grumbling and quit reporting earnings by quarter. Using testimonials, analysis, and McKinsey reports, "The Next 90 Days" builds a strong case against a system in which companies keep looking one quarter ahead, massaging numbers and tweaking targets, all to keep Wall Street interested. Many executives, John notes, "are openly asking to abolish—or at least seriously overhaul—the longstanding system, insisting that providing a quarterly report card does more harm than good."

Granted, weaning companies off the system won't be easy—not when "brokerage firms, the financial press, and executives' own compensation [are] allied to preserve the short-term view." But there are real benefits, which is why many CEOs have braved the complaining and pushed to stop the madness.

LAST: Dick Martin is no stranger to the pages of *TCB Review*—most recently, he wrote "Nothing in Common" and "Bad Reputation." He is a PR veteran who takes an expansive view of the field, in that he views PR's role as more useful and more central than CEOs often see it, capable of far more than post-scandal damage control. In his new column, "Beyond Buzz," Dick will be exploring what executives should know about PR and corporate communications, looking closely at how companies do it right—and, just as often, wrong. Listen up.

MATTHEW BUDMAN
Editor-in-Chief

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TABLE OF CONTENTS

FEATURES

16 **Who's Winning the Hunger Games?**
New York Times reporter Michael Moss explains how food corporations manipulate our taste sense at the expense of our common sense.
By Matthew Budman

24 **Up in the Air**
No company can maintain success forever—but some get closer to it than others. Here's how to glide higher, faster, and farther than your competition.
By Michael E. Raynor and Mumtaz Ahmed

32 **Trust No One**
A former CIA officer delves into the world of corporate espionage to reveal the many ways in which companies snoop—and how you can safeguard your business secrets.
By J.C. Carleson

38 **The Business Case for Nature**
Companies must strive to protect the environment not only because it's the right thing to do—their business may depend on the availability of natural resources.
By Mark R. Tercek and Jonathan S. Adams

49 **The Next 90 Days**
Do quarterly report cards do more harm than good? Executives are increasingly moving away from providing earnings statements, no matter what investors prefer.
By John Buchanan

56 **"Just Say No"**
If your views on bribery are black-and-white, you're misunderstanding a problem fogged by countless shades of gray. When—not if—your organization bumps up against corruption, will you be ready?
By Vadim Liberman

SOUNDINGS

5
- Valuing Escape Clauses
- Reality Bites
- Disregarding Disruptions
- The Harm of Charm
- Copying vs. Cheating
- The Right Incentives
- A Diversity of Women
- A Guide to Gambling
- When Being Smart Is Stupid

COLUMNS

66 Workspace
Face-to-Face Fallacies
The backlash against the backlash against the remote workforce.
By Alison Maitland

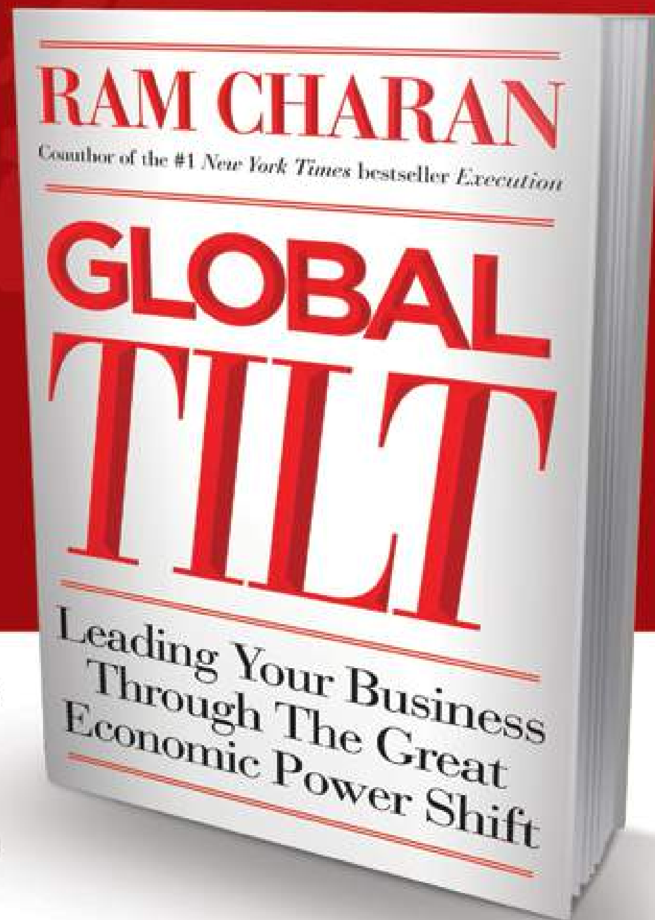
68 HR: You're Doing It Wrong
When Information Finds You
You come across more than you need—or want—to know about a job candidate online. Now what?
By Laurie Ruettimann

70 Beyond Buzz
What's Public Relations Really About?
A no-spin guide to understanding the true role of PR people.
By Dick Martin

SIGHTINGS

72 The Dark Side of Growth
By Vadim Liberman

The GREATEST CHANGE in business history is happening right now…Are you prepared to lead your company through it?



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The Case for Golden Parachutes

BY RAY FISMAN AND TIM SULLIVAN

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From *The Org: The Underlying Logic of the Office* (Twelve).
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THE PUBLIC'S COLLECTIVE SENSE OF OUTRAGE TOWARD HIGH-PAID EXECUTIVES IS NEVER GREATER THAN WHEN THOSE EXECUTIVES GET FIRED AND WALK AWAY UNDER THE SHELTER OF ENORMOUS GOLDEN PARACHUTES. Stan O'Neal stepped down as Merrill Lynch CEO in 2007, amid accusations of creating a culture of reckless risk-taking and pushing Merrill to build its business of repackaging and reselling subprime loans. He left with a package worth over $160 million. Bob Nardelli's golden handshake is one for the record book—a $210 million gift for leaving Home Depot in 2007 after six bad years of leadership that left the company with its lowest profits in a decade. Why should the pink slips of O'Neal, Nardelli, and other failed leaders be accompanied by tens or hundreds of millions in severance pay?

This seemingly absurd system of compensating CEOs for getting fired goes back to a perfectly reasonable attempt to get CEOs to create even more value for their companies. The golden parachute was written into the employment contract of, appropriately enough, the CEO of an airline company, TWA, in 1961. But the practice never really took off until the merger wave of the 1980s was in full swing, when execs started pondering whether it was smarter to seek out merger

→

opportunities to make money for shareholders, or hold on to their jobs instead. Mostly, they opted for the latter (keeping their jobs) by discouraging the advances of corporate suitors, often to the detriment of stock price.

Creating incentives to motivate CEOs to seek out merger opportunities turned out to matter a lot, since one of the best ways for corporate leaders to create value is to make the company a target for merger or acquisition. When larger orgs gobble up smaller ones, it's usually at a premium to what the smaller orgs are worth on their own, so shareholders (the owners of the org) get to cash out at a big profit. But the combined firm needs only one boss, so odds are one of the two CEOs in the merger is out of a job. Ironically, one of the most value-enhancing ways a CEO can spend his time (shopping his company around for acquisition) also results in his getting fired. No CEO is going to pursue those options unless there's a financial upside to do so.

Shareholders responded by providing CEOs with the escape valve that, the reasoning went, would encourage them to work in the long-term best interests of their companies. Looking back on the decade in 1988, Harvard Business School economist Michael Jensen wrote that, while there have been abuses of executive escape chutes—he notes, in particular, one company that packed golden parachutes for more than two hundred managers, thereby making it impossibly expensive for any buyer to take over the company—in general they create a lot of value for investors, who welcome the takeover-motivating effects. Jensen also argued that what is good for CEOs' retirement accounts is also good for society in general, since it encourages CEOs to open the door to corporate raiders, who strip their purchases of waste and other inefficiencies to produce more valuable companies.

By this line of reasoning, golden parachutes make the world a better place by making companies more efficient. That can be hard to swallow.

Why don't regular employees get paid to get fired? CEOs are doing their jobs right only if once in a while it gets them fired, which isn't the case for lower-level employees. This reminds us of another peculiarity of the trade-offs in getting incentives right. If the contract says you get a big bonus check if you lose your job when the company is taken over, that works to align CEO incentives with those of shareholders, but it also means that executives whose ineptitude *also* makes their companies ripe for takeover will be rewarded for their incompetence. And, of course, when we see pay-for-incompetence, we shake our heads at the corruption and injustice of corporate America, rather than thinking of it as an unfortunate side effect of generally well-designed incentives.

Collisions With Reality

BY PADDY MILLER AND THOMAS WEDELL-WEDELLSBORG

Once, on a bright and balmy night in Barcelona, we were chatting with an investor at a professional mixer event for entrepreneurs, when a young MBA student entered the conversation. The student proclaimed that he had spent the last two years writing the perfect business plan for a new venture; he asked if the investor would perhaps like to see it. The venture capitalist's first question was, "Have you tested your idea with potential clients?" The MBA student answered that he hadn't found that necessary. After all, he needed to capture only 2 percent of the market in order to break even, and he had been very careful about getting his financial projections right. That, predictably, was where the productive part of the conversation ended.

As much as a bit of analysis can prevent people from making ill-considered investments, the fact remains that if you want to learn more about a new idea, nothing beats real-world experiments. As our chance encounter with the MBA student showed, there are certain types of people who love tinkering. If given half a chance, they will spend a long time working on their ideas, preferably in complete isolation. They won't test their ideas in the real world because they viscerally hate the notion of showing or testing something that's not yet ready.

That, unfortunately, is a surefire way to waste a lot of time and effort. When working on new ideas, innovators should not treat testing as an evaluation tool, applied at the end of the process. Rather, they should use testing and experimenting as learning tools, allowing them to tweak their ideas before they have invested too much effort in them. Thus, as a leader, you must force people to test and share their ideas before they are ready for prime time. All ideas will have to collide with reality sooner or later. Instead of letting ideas gather momentum for years and then meeting an immovable object, ensure that people do quick, miniature collisions with reality, as repeatedly and as early as possible.

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The Interrupters

BY DOUGLAS VAN PRAET

MARKETERS MUST DO MORE THAN JUST INTERRUPT. Their efforts must also make people receptive to and interested in doing business with them. During the Internet boom in the late 1990s, Outpost.com interrupted people's patterns on television by firing gerbils out of a cannon at a wall! The ad got them plenty of attention but not a sustainable business model. Unfortunately for Outpost, folks were still not sure about buying things online, and without winning the consumer's trust through advertising, how could a commercial which ostensibly abused animals make them feel comfortable about sending their hard-earned money through the Internet? Today, if you type Outpost.com into your browser, it will interrupt your patter again by redirecting you to Fry's Electronics, a company that is known to be a reliable source of discount electronics, never having shot a single gerbil at anything.

Several years back, Quiznos restaurants employed another ill-fated pattern interrupt through the use of rodent-like creatures that sparked plenty of water-cooler conversation but questionable interest in their product. This commercial featured small, furry, ratlike characters levitating aside Quiznos sandwiches, one wearing a bowler hat singing his praises to the refrain of "We love the subs!" while another in a pirate hat strummed along on an acoustic guitar. The goal was to entice viewers to buy their submarine sandwiches, and though those little guys were very funny, not all attention is good attention. Rats and food just don't mix. In fact, the last time I checked, the mere thought of rats next to food is repulsive to most people. As one online commenter put it, "They do not inspire me to buy Quiznos, they inspire me to throw up." We need to do more than just interrupt patterns—we need to connect products with invitingly appropriate associations that move people in the direction of wanting to buy the product.

We frequently are disturbed by stimuli that disrupt but fail to engage us further. When you surf the Internet, you have probably experienced pop-up ads that prevent you from being able to read the article you are really interested in. Some of them even have that built-in motion graphic that does little to entice but draws your attention away from the real reason you visited the site. Or maybe you have been forced to sit through a commercial that you didn't want to see on television, let alone on the Web. But in order to get to the cool video in the headline, you have to annoyingly wait through the commercial or give up altogether and close out the screen.

When I go to my local gas station, I am now forced to complete one more step of my transaction, accepting or denying an offered car wash. I am warned that if I accidentally push the wrong button there are no refunds! That's a lot of choices set against increasing gas prices, and those annoying video screens on top of the pumps hawk advertisements at a volume set loud enough to compete with the local traffic. No wonder I can never remember what they're selling.

Attempting to force compliance through unwelcome intrusions is a losing strategy. It makes life more difficult when brands are supposed to be shortcuts to make life easier. It makes us feel bad when brands are supposed to make us feel good.

■ DOUGLAS VAN PRAET is executive vice president at advertising agency Deutsch LA.
From *Unconscious Branding: How Neuroscience Can Empower (and Inspire) Marketing*. Copyright ©2012 by Van Praet and reprinted by permission of Palgrave Macmillan, a division of Macmillan Publishers Ltd.

The Dark Side of Charisma

BY TOMAS CHAMORRO-PREMUZIC

Most people think charisma is as vital to leadership as it is to rock stars or TV presenters, and, unfortunately, they are right. In the era of multimedia politics, leadership is commonly downgraded to just another form of entertainment, and charisma is indispensable for keeping the audience engaged. However, the short-term benefits of charisma are often neutralized by its long-term consequences. In fact, there are big reasons for resisting charisma:

Charisma dilutes judgment. There are only three ways to influence others: force, reason, or charm. Whereas force and reason are rational (even when we are "forced" to do something, we obey for a good reason) charm is not. Charm is based on emotional manipulation and, as such, has the ability to trump any rational assessment and bias our views. Charismatic leaders influence by charm rather than reason, and when they run out of charm, they tend to revert to force (think Jim Jones, Cristina Fernández de Kirchner, or your favorite brutal dictator).

Charisma is addictive. Leaders capable of charming their followers become addicted to their love. After the initial honeymoon effect is over, they continue to crave high approval ratings, which distracts them from their actual goals. Followers, on the other hand, become addicted to the leader's charisma, reinforcing displays of populism and perceiving unpopular decisions as deal-breakers. The result is a reciprocal dependence that encourages both parts to distort reality in order to prolong their "high." Typically, charismatic leaders will remain deluded even after their followers have woken up. Tony Blair will forever think that the invasion of Iraq was a moral triumph, and Saddam Hussein (who relied on charisma for years) was absolutely convinced that he had served his country with dignity and integrity. But ask most people in Britain or Iraq what they think, and you will hear a very different story.

Charisma disguises psychopaths. Although you don't have to be a psychopath to be charismatic, many psychopaths are charming, and the main reason for this is that their charm hides their antisocial tendencies, so they manage to get away with it. Egocentricity, deceit, manipulativeness, and selfishness are key career advancers in both politics and management, and many leaders rise to the top motivated by their own problems with authority. Although being in charge is a good antidote to having a boss, if you cannot be managed you can probably not manage others either; this is why Rupert Murdoch and Donald Trump spent very little time working for others but too much time managing others.

Charisma fosters collective narcissism. If you think Barack Obama is charismatic, try asking the average Republican. People are charmed by others only when they share their core values and principles. In line, charisma facilitates ideological self-enhancement: Our adoration for someone who expresses our own beliefs (usually better than we are capable of doing ourselves) is a socially acceptable way to love and flatter, not only ourselves but also our "tribe" (e.g., Democrats, Republicans, conservatives, liberals, etc.). In other words, we would not find someone charismatic if his vision didn't align with ours, so the only transformation charismatic leaders can attain is to unite their followers by turning each of them into a more radical version of themselves; the only way of being fully committed to a cause is to be fully opposed to another.

Despite these dangers, the dark side of charm is commonly overlooked. Politics is in bad need of a charisma detox, especially in the Western world. Here are three simple recommendations for upgrading to a more rational and sterilized leadership model, even if it makes poor TV and attracts very few YouTube hits (think Angela Merkel rather than Silvio Berlusconi):

Select leaders using scientifically validated assessment tools, instead of relying on "chemistry" or intuition. For example, narcissists tend to perform well on interviews, and confidence displays are often mistaken by competence. Conversely, robust psychometric tests will identify character flaws in aspiring leaders and provide a reliable estimate of their likelihood of derailing—unlike humans, tests are immune to charm.

Limit politicians' media exposure and airtime—it is distracting and makes charismatic candidates look more competent than they actually are. Of course, I'm not proposing that we limit freedom of speech or regulate press coverage, but content could be curated to provide a more factual and educational account of elections. There is a fundamental difference between a Hollywood actor and a leader, but the modern image of a politician conceals it. Furthermore, this image fuels popular stereotypes about leaders in general, which explains why the Will Ferrell-Zach Galifianakis comedy *The Campaign* is almost too realistic to be funny.

Look for hidden talent—which means avoiding the charisma trap. There is a universal management paradox whereby the people most likely to climb the organizational ladder do so because (rather than in spite) of character traits that impair their performance as leaders. Although it's over twenty years since this paradox was first noted, we are still reluctant to look for leadership potential beyond the people who self-nominate for the role—mostly by bullying and stepping on others. This is one of the principal reasons for the low representation of female leaders in senior political or corporate roles; it also explains why the few women who managed to break through the glass ceiling exhibit more aggressive, ruthless, and pathologically ambitious personalities than their male counterparts (think Marissa Mayer or Margaret Thatcher).

In brief, charisma distracts and destructs. Technology and science have enabled us to systematize many serendipitous practices (e.g., shopping, marketing, relationships, hiring, etc.). A more mature and evolved version of politics will require a charisma detox—leadership is not a game.

TOMAS CHAMORRO-PREMUZIC is professor of business psychology at University College London, visiting professor at New York University, and co-founder of Meta. From the HBR Blog Network.

Whose Best Practices?

BY LEE COCKERELL

THE BEST COPYCATS DON'T JUST IMITATE—they pay attention to everything around them, spot the best ideas, and then find a better way to apply them.

Despite what your third-grade teacher might have told you, copying is not cheating, at least when it comes to business. Unless what you are copying is trademarked or legally protected in some way, there is no law against taking another business's ideas and adapting them to your needs; if there were, some of the best innovations on the planet would never have come to be. In fact, not being a copycat is cheating—it's cheating yourself. Think about it this way: As soon as one of your competitors installs a better service system or invents a faster way of doing things, they'll eventually start stealing your customers, and before long you'll be wishing you'd copied them when you had the opportunity. So stay closely tuned to everything your competitors are doing, and don't hesitate to take their best practices and run with them.

The hotel industry is a great example of one that thrives on copycatting. Every major hotel chain now has express check-in, express checkout, preorder breakfast menus, flat-screen TVs, exercise rooms, frequent-traveler awards programs, and other new amenities. If you remove the company's name and logo, you can usher a frequent traveler into any major hotel chain, and chances are she won't even be able to tell which one she's in. Each of those innovations started somewhere, and now they're everywhere, with the chains racing to improve their versions before the others do. Nowadays, no hotel dares not to copy and build on a good idea, and the beneficiaries are the travelers who need a comfortable place to rest their heads.

LEE COCKERELL is a management consultant and former executive vice president of operations at Walt Disney World. From *The Customer Rules: The 39 Essential Rules for Delivering Sensational Service* (Crown Business). ©2013

Longevity ≠ Innovation

BY GERARD J. TELLIS

Traditional incentives are often based on longevity in the organization, with perks and rewards increasing based on the number of years of employment. This incentive scheme has many motivations. First, it is based on a simple, easily measured and implemented scheme. Second, it motivates loyalty to the organization and reduces the costs of employee turnover. Third, unions prefer it, perhaps because it is objectively tracked and fosters social equity (in contrast, enterprise-based incentives can lead to much inequity).

However, traditional incentives based on longevity do not foster innovation. Such incentives reward employees even when their performance falls below average so long as they put in the years. Longevity-based incentives motivate employees to hang on to an organization even when they are underperforming. Over time, organizations with longevity-based incentives will be left with loyal employees but not their innovators, who would have jumped ship to join organizations that better reward innovation.

Traditional incentives are often tied to seniority in the organization, with higher incentives reserved for senior managers and lower incentives for junior managers. If seniority itself is based on longevity, then such incentives have all the disadvantages of longevity-based incentives. Moreover, rewarding seniority rather than enterprise stimulates envy and status-flaunting but not innovation.

Traditional incentives are also often tied to sales of existing products or satisfaction of current customers. However, even such performance-based incentives do not foster a culture of innovation. Focusing on existing products instead of new products encourages attention to current details but hampers new ideas and innovations for the future. Linking incentives to current customer satisfaction limits development of new markets and customers that may become important in the future.

To foster innovation, firms need incentives for enterprise. Such incentives, unlike traditional ones, reward employees for developing and implementing innovations: new ideas, products, services, or businesses. In such a system, bonuses, raises, promotions, and perks are all tied to the quality and number of innovations. Even young or new employees may do better than veterans in this system.

■ GERARD J. TELLIS is director of the USC Marshall Center for Global Innovation. From *Unrelenting Innovation: How to Build a Culture for Market Dominance* (Jossey-Bass). ©2013

The Difference

BY MEREDITH FULLER

TODAY'S WORKING ENVIRONMENT HAS WOMEN WITH INCREDIBLY DIFFERENT EXPERIENCES OF WORK. There is a smattering of women born prewar, a large group of baby boomers, and Gen Xers and Gen Ys in increasing numbers. Gen Ys are working alongside women who might be older than their mothers, while boomers are managing females who are younger than their own daughters. No wonder this causes frustration, angst, and confusion. Women who experienced firsthand the impact of the sexual revolution of the mid-1960s, the feminist movement of the 1970s, and the recession-driven 1980s (with the first round of layoffs) are working with those who have grown up in the middle of the technological revolution of the last twenty-plus years.

On the upside, this brings a great range of experience to the workplace. On the negative side, the differences can cause communication breakdowns. And poor communication can be misinterpreted as bitchiness.

The age range of women at work means a big difference in what's going on biologically and at home. Some women are trying to conceive, whereas others are going through menopause. Some have small children, some have teenagers, and others are grandmothers. Happily single women work alongside females who are desperate to have a baby but haven't found a suitable partner yet, while others are trying in vitro fertilization or are struggling with solo parenting. There's a lot going on, and while work can be the great escape from everything else, it can also be the place where it all unravels.

■ MEREDITH FULLER is a psychologist and corporate consultant. From *Working With Bitches: Identify the Eight Types of Office Mean Girls and Rise Above Workplace Nastiness* (Da Capo). ©2013

The Big Bet

BY JASON JENNINGS

People are 120 times more likely to die by being hit by lightning and twelve hundred times more likely to die from a bee sting or snakebite than to win the lottery, but they still line up to buy lottery tickets. While it's one thing to occasionally wager a dollar on nearly impossible odds, it would be insane to sell your house and cash in your life savings to place a single bet on impossible odds, but that's what many people in business routinely do. Why?

Each day, thousands of small and midsize companies make big, one-shot bets—and fail. We don't hear about most of them, just as we don't hear about people who lose the lottery; they aren't front-page news. News isn't interested in these "dog bites man" or common, everyday stories, because they don't drive ratings or page views. Instead, the press gives us "man bites dog" stories of big bets and immodest success. The constant repetition reinforces the myth of business as a high-stakes lottery in which the winners go big or go home.

Peter Sims, best-selling author and venture capitalist, saw the big-bet fairy tale firsthand while attending Stanford Graduate School of Business. "We'll do something new, start a company or take an unconventional career path," his fellow MBA students would say to him, "but we need a great [big] idea first." In other words, they believed that billion-dollar ideas were the starting point for entrepreneurs. "But Google started as a small library search project; Starbucks had no chairs and nonstop opera music at the beginning," Sims says. "Great entrepreneurs didn't start with big ideas, for the most part." When business owners, MBAs, and senior executives buy into this fairy tale, they often end up with unhappy endings, dashed dreams, careers in ruins, fortunes lost, and unemployed workers.

Recall the big-bet merger that Carly Fiorina engineered with Compaq after she became CEO of HP. It was a disaster that resulted in the company's stock falling by more than half during her tenure.

Likewise, Stanley O'Neal's big bet on reckless investments brought Merrill Lynch to its knees and forced the company into the hands of Bank of America.

The big bet that Time Warner CEO Gerald Levin engineered with AOL will go down as the worst deal in business history and cost shareholders more than $200 billion.

CEO Bob Allen nearly destroyed AT&T when he made a single big bet and acquired computer company NCR. The bet turned out to be so bad that the combined company lost $12 billion, the normally staid *Time* magazine called it a "monolithic screw-up," and the only way the company was saved was by laying off fifty thousand employees.

Then there's Angelo Mozilo, who became so blinded by success that he bet his entire company, Countrywide Home Loans, on subprime mortgages and who will forever be the poster child for the housing and mortgage meltdown that almost destroyed the American economy.

Businesses that do the best job of constant radical change and reinvention simply don't get blinded by the fairy tales of the biggest bets generating the biggest paydays. They realize that successful strategy is discovered by doing, and that doing has to be learned from taking lots of small bets.

JASON JENNINGS is a leadership and management consultant. From *The Reinventors: How Extraordinary Companies Pursue Radical Continuous Change* (Portfolio/Penguin). ©2012

Are You as Smart as You Think?

BY MIKE MYATT

IS YOUR INTELLECT AN ASSET OR LIABILITY? All one has to do is watch a very bright person defend their position to understand what I'm driving at. Observing intelligent people lecture, spin, posture, position, cajole, argue, rationalize, or justify their beliefs in order to "get the win" is often times entertaining, but it can also be exceedingly frustrating.

I've come across more than a few self-proclaimed "intelligent" people who believe their intellectual acuity is far superior to the discernment of their peers and co-workers. Not only are these intellectual giants usually wrong, but sadly, by the time they awaken to a state of reality it is already too late.

While leadership intelligence doesn't have to be an oxymoron, it certainly can be. When a person begins to believe their own smoke, they have placed themselves on a very slippery slope. There is truth in the statement "a person can be too smart for their own good." How many times have you witnessed a very bright person fail to solve a problem that a younger, less experienced, and perhaps even a less intelligent person solved with seemingly little effort? While raw intelligence is a valuable commodity, in and of itself, and to the exclusion of other traits and characteristics, the sole reliance on IQ can be a barrier to professional growth and maturity.

Is your intellect standing in the way of your success? Are you so enamored with how smart you are that you can't get anything done? Consider this: Is it more important to be right, or to achieve the right outcome? I tend to respect those who can lead others to the proper outcome as opposed to those who excoriate others just to prove they're right. If your certitude overshadows your wisdom, you may want to dial it back a notch.

By nature of what I do for a living, I tend to work with very bright people. It has been my observation that hyper-intelligent people can tend to think themselves into trouble and out of opportunities with great ease. Whenever I find

myself discussing issues of intellect, ego, leadership, etc., I'm always reminded of the cartoon that reads: "Rule #1: The boss is always right! Rule #2: If the boss is wrong, see Rule #1." If you find yourself rationalizing or justifying positions based solely upon intellectual reasoning without regard to culture, practical realities, timing, or other contextual considerations, you may be too smart for your own good. Just as a lack of belief in gravity won't prevent you from falling, simply believing a particular opinion or theory to be fact doesn't mean it is.

Oftentimes the problem with intelligent people lies simply in the fact that they have come to enjoy being right. Bright people can quickly find themselves in the position of confusing ego with intellect, and can sometimes defend ideas to the death rather than admit they're wrong. Smart leaders fear being wrong more than they fear being proven wrong. Winning an argument isn't particularly difficult, but it may come at a very expensive price. This confusion of ego and intellect often stems from successfully arguing wrong positions over time, such that they've built their persona around being right and will therefore defend their perfect record of invented righteousness to the death. Smart people often fall into the trap of preferring to be right even if it's based in delusion.

Bright people can quickly find themselves in the position of confusing ego with intellect, and can sometimes defend ideas to the death rather than admit they're wrong.

So how do you know when you've crossed over to the dark side and can't tell the difference between fact and fiction? The following five items will help you discern whether or not you are using your intellect properly, or whether you've just simply bought off on your own propaganda:

1. Consistent conflict. Do you find yourself in a perpetual state of debate? Do you find yourself thinking, "Why am I the only one who gets it?" Is it more important for you to be right than to arrive at the correct resolution to an issue, problem, or opportunity? Are you known as a bitter, pessimistic, or negative person? If any of these issues describe situations that hit too close to home, then you may want to take a step back and do some self-evaluation.

2. Lack professional growth. It's impossible for stagnant leaders to sustain growing organizations. If you prefer to rest on your laurels rather than continually stretch your mind, you're in for a rude awakening. Leaders who don't develop themselves professionally will be replaced by those who do.

3. Exclusivity vs. inclusivity. Do you use your intelligence to intimidate and stifle others or, rather, to encourage, inspire, and motivate others? Do you wonder why you can't seem to retain tier-one talent or why you lose key clients? If your brilliance is polarizing as opposed to engaging, then how smart are you really?

4. True success. If an independent third party interviewed your peers and subordinates alike, what would that feedback look like? Do others see you as successful, or are you merely a legend in your own mind? What I think of myself is not nearly as important as what my family, friends, clients, and co-workers think of me. If those you surround yourself with don't hold you in high regard, then you have no reason to.

5. You're too busy. Saying, "I'm too busy for ________" is code for saying that you don't value whatever _________ is. Smart leaders are never too busy to make good decisions, to invest in people, to listen, or to learn. The job of a leader is to understand the value of creating and leveraging white space both personally and organizationally.

Bonus: You're a bad listener. Stop worrying about what you're going to say, and focus on what's being said. Don't listen to have your opinions validated or your ego stroked—listen to be challenged and to learn something new. You're not always right, so stop pretending you know everything and humble yourself to others.

If you desire to be listened to, then give others the courtesy of listening to them. It's important to remember that ***y****ou should never be too busy to listen.* Anyone can add value to your world if you're willing to listen. How many times have you dismissed someone because of his station or title when what you should have done was listen? Wisdom doesn't come just from peers and those above you—it can come from anywhere at anytime, but only if you're willing to listen. Expand your sphere of influence, and learn from those with different perspectives and experiences—you'll be glad you did.

The gift of intellect is an asset to be thankful for and put to good and productive use. It is not an excuse to be lazy, arrogant, mean-spirited, or delusional. Don't let your intellect stand in your way—rather, use it as an asset to develop those around you to their full potential.

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Everything at Once

BY RUDOLF GRÖGER

When I became CEO of O_2, I worked on setting targets along with the company's vision, mission, and goals. But I discovered you never have one problem alone.

I went, first, to the sales department and said, "Guys, why are you not selling enough?" They said, "Rudi, we are great salespeople. But, to be honest, our network is not the best. We know that already. No wonder people do not buy from us."

Then I moved to the network department and said, "Hey, network department, the guys in sales say you are responsible for our underperforming in sales because the network is not good." But the network people said, "We have built a wonderful network."

"Who is it, then?" I asked them. Perhaps you will not be surprised that they suggested, "The real problem is IT. Our planning tools are poor. We sometimes build a network where no customer is sitting, and on the other hand, where customers sit, we do not have something to offer. You know, it's IT." But then IT said, "We are running the best systems ever!"

So I said, "Who the hell is it, then?" and all three groups agreed: It is the new shareholder. They said, "We have a British shareholder, you know. They drive on the wrong side of the street. They have their own currency. They are hard to understand. The Brits are guilty."

What I concluded is that you can't save a company by finding a critical problem. You can't save a company by saying to people, "You are no longer allowed to fly business class." These are not your real problems as a leader. Your problems are that your production is too slow and too expensive. Your people are demotivated. Your sales force is targeting the wrong customer. You have many problems at the same time that you must focus on. And therefore you have to deal with everything at the same time. This is the leadership challenge.

In our turnaround and I think in many other cases of turnaround as well, leadership requires that everything has to be repaired at the same time: product roadmaps, quality, technology streamlining—everything. You cannot say this or that is a priority because everything has to be addressed tomorrow.

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One Big New Idea

BY LEWIS SCHIFF

THE NOTION THAT YOU CAN GET RICH FROM ONE BRILLIANT IDEA IS SUCH A COMMONLY HELD DREAM THAT WHENEVER SOMEONE ACTUALLY SEEMS TO HAVE DONE IT, THE PRESS EAGERLY EMBRACES THE STORY. Unfortunately, media coverage offers an extremely distorted view of reality. More people die from bee stings than shark attacks every summer, but you'd never know that based on the hysterical coverage devoted to occasional shark sightings.

The same holds true with fatal lightning strikes, which always make the evening news, while many more people are killed each year by falling off ladders. Clever ideas are the shark attacks and lightning strikes of business success—they are dramatic, exciting, and very rare. You're more likely to make headlines with a big new idea, but you're more likely to succeed without one.

The media's appetite for tales of people getting rich off their out-of-the-blue brainstorms has provoked many successful companies to come up with media-friendly "creation myths." The most infamous case is that of eBay. For years, eBay pushed the story that founder Pierre Omidyar had been inspired to create the online auction site because his fiancée wanted to use the Internet to grow her collection of PEZ dispensers. *BusinessWeek, The Wall Street Journal,* and *The New Yorker* all seized on

this delightful story of how a fortune was built when one man in love wanted to please his bride-to-be and help her trade in the most frivolous and useless objects imaginable—PEZ dispensers. For years, this story was repeated and played up by eBay's top executives. They even posed for news photographers while holding the goofy little toys that had supposedly made them all multimillionaires.

It wasn't until 2002, eight years after eBay's founding, that a book about the company revealed how the PEZ story was a complete fabrication. It was made up by a young employee who was failing in her job of drawing media attention to the company. In truth, Omidyar had started something called Auction Web as a hobby, and his first sales involved all sorts of drab, uninteresting items. Yes, Omidyar's girlfriend did eventually buy and sell some PEZ dispensers on the site, but only after it had been up and running for more than two years.

Even without such corporate spin, the media can usually be counted on to promote the myth of innovation on their own. Look up the first long *New Yorker* profile of Bill Gates and you'll find no mention of computer scientist Gary Kildall, who developed the first operating-system software for personal computers. John Seabrook's 1994 article opens its segment on Gates's dealings with IBM this way: "In 1980, I.B.M. approached Gates to write an operating system for the personal computer it was designing." That's not really true, but if Seabrook had included the story of how Gates had actually sent IBM to see Kildall, he would have undermined the premise of his article: that Gates was a software visionary whose speculations about the future were worth reading about in the pages of *The New Yorker.*

If there is any harm done by creation myths like eBay's PEZ story or media puffery like *The New Yorker*'s Bill Gates profile, it's that they offer the public badly distorted ideas about what it takes to be successful. In 2004, a pair of U.C. Berkeley business professors attempted to explore the power of what they termed "the garage belief"—the common notion that most entrepreneurs start out by tinkering and innovating in garages, basement workshops, or even dorm rooms. Pino Audia and Chris Rider surveyed business-school students and found that on average the students believed about half of all start-up businesses begin this way, while a more accurate count is much closer to 25 percent.

When Audia and Rider then studied a group of ninety-six new businesses that received venture-capital funding, they found that most hadn't counted on garages or innovations to get started. The distinguishing feature most commonly shared among almost all of these companies was that they started out by relying on knowledge, partners, and funding sources that their founders had identified *in their previous jobs.* As Dan and Chip Heath would write, "companies aren't born in garages. Companies are born in companies."

Audia and Rider concluded that "by misrepresenting the process by which many individuals become entrepreneurs, the garage belief may lead to seriously misinformed employment choices by individuals, ill-advised resource-allocation decisions by companies, unsuccessful course offerings by business schools, and/or ineffective program offerings by governments."

Gates's true role as imitator, not innovator, was always assumed among his Silicon Valley rivals. Larry Ellison, the billionaire founder of Oracle Corp., has been particularly outspoken in his criticism of Gates's business practices. "Bill goes out and methodically searches for good ideas to steal," Ellison told an interviewer. "That's perfectly rational behavior. That's made him very successful. But then, one by one, Bill starts to claim credit for the stolen ideas. He actually starts believing that they really were his ideas in the first place. . . . He can't bear to see himself as Rockefeller; he sees himself as Edison."

The passage of time, however, has revealed Gates's terrible track record as a visionary. Gates's first book, published in November 1995, was called *The Road Ahead;* it devoted just a few pages to the Internet, paying it lip service as a "beginning" step toward a true information superhighway. "Seeing far into the future is not what Mr. Gates does best," the *Economist* groused when the book came out. "Naturally, he has a vision; but the vision is disappointingly similar to that of so many pundits who have tried to look ahead." Within six months of the book's publication, Internet usage had exploded and Gates and his co-authors had to rewrite almost half of *The Road Ahead* prior to its paperback release in 1996. "No matter how much Bill Gates may claim otherwise," Netscape founder Jim Clark has said, "he missed the Internet, like a barreling freight train that he didn't hear or see coming."

My point here is not to take anything away from Bill Gates. I think that the true Bill Gates story, the one that never gets told, is a valuable one. For example, the game plan that Gates relied on, the one that consistently yielded results for him, is a sound business strategy that anybody can learn from and imitate: Find the field that interests you the most, work with the biggest and richest player willing to partner with you, and then do everything you can to help that big, rich partner succeed.

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Adapted from *Business Brilliant: Surprising Lessons From the Greatest Self-Made Business Icons* (HarperBusiness) ©2013

Who's Winning THE HUNGER GAMES?

MICHAEL MOSS EXPLAINS HOW NABISCO, KRAFT, AND GENERAL MILLS GOT US TO CRAVE ALL THE WRONG THINGS.

BY MATTHEW BUDMAN

FOR YEARS, *NEW YORK TIMES* REPORTER MICHAEL MOSS HAS BEEN DELIVERING THE INSIDE STORY ON WHAT WE EAT, AND THE RESULT HASN'T ALWAYS MADE READERS HUNGRY—IN 2010, HE WON A PULITZER PRIZE FOR "RELENTLESS REPORTING ON CONTAMINATED HAMBURGER AND OTHER FOOD SAFETY ISSUES." TWO WORDS: PINK SLIME.

In his new book, *Salt Sugar Fat: How the Food Giants Hooked Us (*Random House), Moss writes about far more appealing grocery items: Lay's Potato Chips and Dr Pepper and Snickers and Hot Pockets and Chips Ahoy! and Pop-Tarts and Capri Sun and Frosted Mini-Wheats. As much as we know we

■ MATTHEW BUDMAN is editor-in-chief of *TCB Review*. During supermarket visits, he is often able to resist the siren call of Oreos.

should bypass those colorful packages—really, we should skip those store aisles altogether—most of us can't help being sucked in. Why? After years of manufacturers' loading up processed foods with salt, sugar, and fat, we're hardwired to crave those ingredients.

Indeed, corporate food scientists have spent decades searching for each item's *bliss point* ("the precise amount of sweetness—no more, no less—that makes food and drink most enjoyable"), and now any effort by the company to tinker with the formula, especially to make the products less unhealthful, results in their tasting a little . . . off.

Moss takes on who's responsible for causing today's obesity epidemic—and how we can move forward to begin solving it. Fortunately, he is no ascetic, which becomes clear when talking about, as the book describes, companies developing "frozen pizza that boasted two, three, and four different cheeses . . . and then they tucked more cheese into the crust." "Oh, my *gosh*," he says. "The *crust*. Oh!" And then Moss explains both the appeal and why that appeal is so dangerous: "The melted, gooey feeling you get—there are nerves in the back of your mouth that pick up on that and go right to the brain's pleasure center, just like sugar. Except that fat has twice the calories as sugar, so it's a real problem. Today, cheese is the number-one source of saturated fat in the American diet." Just when you were thinking that pizza was sounding particularly good . . .

Moss spoke from the offices of *The New York Times*.

I'm sure this wasn't your intention, but reading *Salt Sugar Fat* made me hungry for salt, sugar, and fat.

I've heard that! And I have to confess: One of my downfalls is potato chips, and when I was writing and researching the book, I would *indulge*. My message is not about avoiding all processed foods, because there's no way I could hew to that line.

It's hard to read about Oreo Fudge Sundae Cremes without craving one. Must be even harder to write about them.

And you have to appreciate the science and effort that goes into them. On some level, these scientists and marketing people are geniuses.

At one point you write: "Picture in your mind a hot pretzel with big white crystals of salt on top—"

Mmm.

"—your brain is probably, at this very moment, sending you signals of pleasure."

Exactly. Maybe the industry will thank me for this book.

Has working on the book changed your eating and buying habits?

Well, for research I would go shopping with my two boys, who are 8 and 13, and watch how they maneuver through the grocery store and see what they're drawn to, and that certainly confirmed everything I'd heard from market researchers. And I've become more cognizant of what we're eating and feeding our kids, in part because there are lots of choices in the grocery store.

Are you now that guy who can't resist telling friends and family what's really in everything they eat and drink?

No—I would never tolerate such a person in my life! There's a funny story: I had been writing about *E. coli* contaminations in meat, and my youngest, Will, had just started kindergarten and had relished the school-lunch hamburgers until he became versed in spelling *E. coli*, and at one point the dinner conversation turned to cookies, and Will said indignantly, "Dad, you're not going to start writing about sugar, are you?" Kids are *so* over the moon about sugar; their bodies are hardwired for it, which explains why so many things in the grocery store have become sweet.

We sneak 100 percent whole-wheat bread into the kids' diets, and they don't seem to mind, though they draw the line at whole-wheat pasta. They will not touch that. So you have to give and take. And my wife the other day said to the kids, "Cereal is OK, but when we buy it, go for the cereal with five grams or less of sugar per serving." That engages them in the hunt and helps them participate, and sure enough, there are great cereals out there with less sugar. And I've been trying to work oatmeal into the morning family routine.

> **"That's what their main job is: to sell products and feed people. And it took a while for their own people to become cognizant and aware of the growing obesity problem.**

Isn't that time-consuming?

"Convenience" foods are a bit of an exaggeration. You know, it all started with a fabulous presentation that Charles Mortimer, the CEO of General Foods, gave to none other than The Conference Board in 1955—the year I was born—all about convenience, with a capital C, as he said. He's the person who coined the phrase *convenience foods*. He was so convinced that this was the way to go that he was eager to share his vision with all other aspects of consumer goods. He *preached* convenience. And back at General Foods, he drove his scientists to find every which way to make food more convenient; things like Tang emerged because of his vision.

So we have Charles Mortimer to thank for Tang.

And The Conference Board, maybe.

You begin the book in 1999, at a summit held to discuss what the big food companies could do about the growing obesity problem. It was already enough of a priority for Kraft and Pillsbury and General Mills and Nabisco and others to convene to talk about it. How long ago did the companies understand their impact on health? In other words, when was the last time they could claim they didn't know?

It wasn't so much that they didn't know—it was that for so many decades, the largest of the food companies were focused on making foods that were convenient, less expensive, and of good taste. That's what their main job is: to sell products and feed people. And it took a while for their own people to become cognizant and aware of the growing obesity problem. It was only in the mid-'90s that some of their senior people began talking and meeting and discussing among themselves, at a scientific level, what the looming obesity crisis meant.

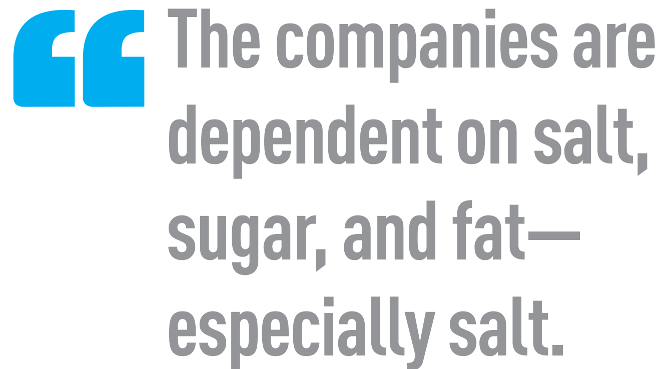
The 1999 meeting was the first time that the issue was thrust in the faces of CEOs. And it wasn't a happy meeting. The lead presentation wasn't by some government nutrition czar—it was one of their own, a senior executive at Kraft, who lay responsibility at least partly at the feet of the top executives, and pleaded with them to do something. And they had to be envisioning losses of millions of dollars if they started tinkering with these formulas and marketing plans that they had spent years and years perfecting.

You found a number of former executives who had changes of heart, or pangs of conscience, about what their companies made and sold. It feels reminiscent of the tobacco industry, only without the lawsuits and nondisclosure agreements and *The Insider*.

Well, there's a real thread of tobacco and food in the book, starting in the late 1980s. When Philip Morris purchased General Foods and then Kraft, it became the largest food company in the United States. In the early years, Philip Morris treated the food division as it would its tobacco divisions: It encouraged managers to do everything they could to sell more of their products. Among many thousands of pages of internal documents, I came upon the records of the monthly products committee meetings that Philip Morris held, where the food managers would present their latest plan for reformulating, remarketing, repositioning, repackaging foods to increase sales.

And then the company had almost a complete reversal in its attitudes. Philip Morris went through the horrible period—for it—of the '90s, where it came under increasing attack for nicotine in cigarettes. It was the first tobacco company to embrace regulation, on the notion that it was losing the trust of consumers; the company was facing the possibility of losing *everything* if it didn't capitulate. And then it

started to look at its food division. The senior people at Philip Morris started warning the people at Kraft to start being concerned about salt, sugar, and fat and the looming obesity crisis. CEO Geoffrey Bible, who spoke to me for the book, warned the food division that obesity was a problem every bit as great as nicotine was for the cigarette division.



It was Kraft that convened the big 1999 summit meeting, right?

Yes. The chief mission of Michael Mudd, the Kraft vice president who led the meeting, was to try to get the industry to collectively join together to do something about obesity. He knew that the competition between companies was so fierce that if any one struck out on its own to reduce its products' salt, sugar, and fat, it would become a bloodbath in the grocery store, as competitors moved in to claim any forsaken territory on the shelf.

And in fact, this is what played out at Kraft: When it couldn't get the rest of the food companies to participate, it struck out on its own and took a new look at the way it was packaging products and the way it was marketing to children. Ultimately, there was a stunning moment at Kraft in which officials sat down and said, "Look, we need to consider the possibility that we have made these formulas so alluring, so craveable, that we are in fact encouraging people to overeat, and we need to do something about that." Kraft set limits—caps—on the amount of salt, sugar, and fat in all its categories of food, as a way of tamping down the eagerness of their food inventors to hit consumers' bliss points by using as much as possible.

It's worked to some extent over the years—Kraft says that it still maintains the caps and has managed to reduce calories in a good number of products. But they ran into trouble in the cookie aisle in 2003, where Hershey came in with the S'mores bar, which combined chocolate with cookies and scared Kraft to death. They tried to respond with richer cocoa that still met the limits of their cookie caps, but ultimately they had to budge a bit and start creating slightly fatter, richer Oreo-type cookies in order to survive this competition from a company that wasn't embracing the same anti-obesity initiatives. It's an incredible lesson to companies: This is what happens when you jump out too far ahead of the competition.

Seems a perfect opportunity for federal regulators to step in. But you implicate the government throughout the book for aiding and abetting producers at every stage, from farmers through retailers. Why so much government protection?

It speaks to the power of the food industry and its importance to the economy—we're talking about a trillion-dollar industry. The Department of Agriculture has multiple missions, and one of them is to support the agricultural industry and the food industry. It also has the mission of protecting consumers and encouraging better nutrition, but when you look at the agency's spending, a minuscule amount of their effort goes toward encouraging people to eat better, as opposed to supporting increased consumption. And it plays out most starkly in government support for dairy and red meat.

You call the USDA a full industry partner in urging Americans to eat more meat and cheese, but on the other hand, it seems as though the companies, in refusing to take the lead in dealing with the implications of salt/sugar/fat, are practically daring regulators to step in and take action.

Yeah, I think they really are. But these companies are between a rock and a hard place, for several reasons. One is the Kraft experience—if you jump out too far ahead, your competitors will eat you alive, and if they don't, Wall Street will.

There's a compelling story about Campbell Soup, which is just a wonderful company—who else would have committed to staying in the town of Camden, New Jersey? They have been trying over the years to cut back on salt, and recently they took the salt levels in one line of their soups to a really commendable level, but sales faltered, and Wall Street analysts balked. The pressure from Wall Street was such that Campbell had to reverse, and they added back in all the salt that they had taken out. It's really illustrative of the pressure on these companies to maintain or increase profits.

I asked Geoffrey Bible about the difficulties that companies like Kraft were having, and he said that while he was no friend of government, if there was ever a place for government to step in, it was here, if only to give these companies some cover from Wall Street: *Yes, we're cutting back here, but the government is making us do it.* He saw how regulation would

be in the companies' best interests.

People are becoming much, much more concerned about what we're putting in our mouths—about obesity and the health effects of processed foods. And yet the companies are dependent on salt, sugar, and fat—especially salt. While we develop salt cravings and get hooked, it's *nothing* like the dependence that the food industry has. It's a miracle ingredient for them. It does *everything*, from providing flavor bursts to covering up awful tastes that are inherent in many processed foods.

These companies know there's a market in things that taste good without salt, sugar, and fat, and they'd all love to have those products on store shelves. But you tasted a number of attempts, right?

Kellogg invited me to their R&D facility, and we sat down and tasted their iconic products, specially made for me without any salt at all.

How were those Cheez-Its?

It was *the* most godawful experience. Cheez-Its are normally something I could eat all day long, and I couldn't even swallow them—they stuck to the roof of my mouth. The frozen waffles tasted like straw. And then we got to the cereal, and it tasted . . . I hesitated to say anything, and then I looked at the expression of one of the technicians who was tasting with me, and he said, "This tastes like *metal*." And it did! It was like a filling had come out of one of my teeth and was sloshing around. It was *horrible*. And they explained to me that that's one of the miracle things that salt does: It masks and overrides these awful flavors that can develop in the formulations, especially those foods that have lots of vitamins and minerals and preservatives added.

Now, these companies *can* cut back by 10 or 20 percent, because they're adding so much now. But when they get to 25 percent, consumer panels say, the taste just falls off a cliff.

"While we develop salt cravings and get hooked, it's nothing like the dependence that the food industry has."

Companies say that removing salt and fat severely compromises "consumer preference"—which means, I guess, that people hate the result.

They do have wonderful phrases in the industry: *craveability*, *allure*, *mouthfeel*, *bliss point*. They hate the word *addiction*, of course.

> “Ultimately, we are the ones who decide what to buy and what to eat.

> “There’s only so much that you can expect from companies; you can’t expect them to make a product that isn’t going to sell very well.

Now, you discuss how Kraft got too good at making products everyone craves, and you note that "the makers of processed foods have chosen, time and again, to double down on their efforts to dominate the American diet." But isn't that the goal of any big company—to become a key or even indispensable part of consumers' daily lives?

Absolutely. And it's critical to understand that. It's a mistake to view these companies and their employees as evil or amoral. They're doing what companies do: They're making products that are appealing to people. And it's critical for health-policy people to understand that, because there's only so much that you can expect from companies; you can't expect them to make a product that isn't going to sell very well.

With that in mind, is it really fair to treat food companies' branding and marketing efforts as somehow insidious?

The thing is, there's something hallowed about food. Food is what keeps us alive and keeps the world going; it's inherently supposed to make you *healthy*. So when you start linking something that's supposed to make us healthy to obesity and diabetes and high blood pressure and even gout—which is surging right now in this country—then these ordinary, normal practices take on a new light. Increasingly, these companies are seen as having a greater responsibility—not just to shareholders but to consumers and public health.

It will be interesting looking forward: Is this an industry that can change from being beholden just to profit to one that can adopt a greater purpose? Maybe with some government encouragement, that could happen.

If people say they want more healthful food and then refuse to buy it, what can companies do? Why isn't it sufficient for them to offer low-calorie alternatives alongside their regular products?

I've heard that before. But it's the companies themselves that got us hooked on high levels of salt, sugar, and fat, and it's a little disingenuous for them to say now that, well, people want these products.

But right now, as you note, Wall Street may be halting progress, but isn't the reason investors complain because, when companies reduce salt and fat, sales slow? Is the real problem that consumers aren't bucking their own impulses and tastes enough?

The solutions have to go hand in hand. There's no question that some of the responsibility for solving the problem rests in the hands of consumers. And we need to start with education: It was such an unfortunate and powerful thing when home economics fell by the wayside and kids were no longer taught how to shop and cook and eat healthily. Many kids now have no clue how to shop or to cook anything for themselves, and that has played into the hands of convenience and fast foods. We need to restart the home-economics program in schools, because you can't just throw carrots and apples at kids and expect them to eat them in the lunchroom. When you engage them in a conversation about food, they get it. They're smart. They want to be fit and strong.

There are points in the book at which consumers seem almost like helpless victims at the mercy of scientists and marketers at Mars and Coca-Cola.

I felt that way before doing this research—grocery stores are *minefields*, especially for someone who's sensitive to salt. It's almost impossible to find good products that aren't heavily salted. But if nothing else, I'm hoping that this book helps empower people, simply by recognizing everything that the food companies are throwing at them, recognizing that the middle parts of the store are where the most heavily salt, sugar, and fat-laden products are. Ultimately, we are the ones who decide what to buy and what to eat, and that's a powerful thing.

Of course, it's difficult. When fresh blueberries cost so much more than a PowerBar or cereal, it's really, really difficult, financially. And that's where government and industry need to come in and level the playing field in terms of pricing. It's one thing to know that you should be shopping in the fresh-vegetable section and another to look at the tab that you're running up when adding those things to your grocery cart, compared to the less-expensive products in the center of the store. That's a critical thing for food-policy people to solve.

Do you see a day of reckoning on the horizon, whether driven by consumer revolt or government crackdown or corporate initiative?

My sense is that the food giants are running scared right now—they're worried that their customers are becoming concerned about nutrition and good health, and they're worried about their own dependence on salt, sugar, and fat.
I think they're going to start scrambling and putting all kinds of energy and resources into doing innovative research to develop healthy products that will meet everybody's needs and concerns. I think that's what's going to have to happen. ■

UP IN T

HOW SOME COMPANIES MANAGE TO DEFY GRAVITY.

BY MICHAEL E. RAYNOR AND MUMTAZ AHMED

GLIDER PILOTS, LIKE ALL AIRPLANE PILOTS, KNOW THE EXPRESSION, "TAKEOFFS ARE OPTIONAL; LANDINGS ARE MANDATORY." IT MEANS THAT NO MATTER HOW HIGH, FAST, OR FAR YOU FLY, YOU ARE GOING TO COME BACK DOWN. GRAVITY ALWAYS WINS.

The same can be said of corporate performance. The only certainty for any company doing well is that eventually it will be doing worse. Every company that has ever slipped the surly bonds of earth has eventually proven entirely average—or worse—in the longer run. You might be unable to predict precisely what will bring down any given high-flyer, but it is a sure thing that something will.

Sometimes greatness erodes due to internal failings: Inertia born of complacency might lead you to resist obvious and necessary changes; entropy born of hubris might dilute your focus on key customers or markets. Sometimes external forces undermine performance: Competitors, spurred on by your historical success, emulate your behaviors—or, worse, improve on your original insights—leaving you with no advantage at all; changes in customer preferences or regulatory or legislative constraints can render historical strengths irrelevant or even turn them into encumbrances.

Whatever the proximate cause, just as no glider can stay aloft forever, no company can remain on top eternally.

Now, the good news: Even if defeating gravity is impossible, we can realistically aim to defy it successfully. Despite the inevitability of a return to earth, some glider pilots do fly higher, faster, and farther than others. Using the same equipment in the same circumstances, some pilots—the *exceptional* ones—remain airborne far longer, soar far higher, and travel much farther than others. For these pilots, gliding is not a passive experience but, rather, a challenge of their intuition, wit, and skill. They must understand their aircraft, their conditions, and themselves to find lift where others find only the void, to achieve just the right angle of attack or to exploit the paradox of diving earthward to generate lift and head

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HE AIR

skyward again. Even exceptional pilots must land—but not until long after the rest of us.

Similarly, some companies are exceptional. They are able, for a time and occasionally for a long time, to overcome inertia, resist entropy, and adapt to competitive or environmental changes. They create better performance and sustain it for far longer than anyone has a right to expect. Nothing lasts forever, but then, that is not the goal. The objective is to deliver better performance for longer by bringing out all of the best that is possible.

Exceptional pilots apply, consciously or not, specifiable rules as they ride thermals, exploit ridge lift, and surf lee waves. Anyone wishing to improve their piloting abilities would do well to understand those rules, even if it might yet take years of experience to apply them as deftly, consistently, and intuitively as the very best pilots. Similarly, we can identify the behaviors that have generated exceptional performance in other companies and infer from those behaviors a set of rules that you can apply to your company with a reasonable expectation of performing better and for longer.

Every glider lands eventually. But how long it stays up, how far it flies, and the heights it reaches are all profoundly affected by the pilot's choices. It is our belief that by consciously adopting the practices of exceptional companies, you can reasonably hope to deny gravity its due.

IT DEPENDS . . . ON WHAT?

So: What are those practices? What allows a company to achieve truly exceptional performance?

That's a question that many have tackled in a wide variety of ways, yielding a still more bewildering diversity of answers. Depending on what you read, the answer lies in everything from clear strategy to humble leadership to alliances with market leaders to product superiority to great people to insightful marketing. At first blush, each makes a strong case, but if they're all correct, then greatness requires doing everything right simultaneously, and that's not especially helpful advice, especially when the particulars of different frameworks are inconsistent with each other.

That there is not even a hint, not a soupçon, smidgen, dash, or touch of convergence in the prescriptions on offer should leave us deeply troubled. If this were the medical field, it would be as though a patient suffering chest pains were told that better health requires everything from better diet and exercise to aggressive drug therapy to invasive surgical interventions, with no basis for choosing among them or even just setting priorities and choosing what to do first.

A big part of the problem with investigations into the drivers of superior performance is that researchers have tended to focus on behaviors, what companies *do*. This is only natural, since it speaks to the action-oriented, practical, "getter-done" bias of successful managers. We fell into this very same groove—or should we say "rut"? Having invested over two years in large-scale statistical analysis designed to identify companies that were reliably "better than lucky" (see "Separating Signal From Noise"), we then spun our wheels for another two years trying to find some pattern in how top performers acted.

SEPARATING SIGNAL FROM NOISE

In our quest to identify top-performing companies and figure out why they were among the best, we felt it was important to be sure that we were looking at companies that were truly exceptional.

That's not as easy as it sounds. The hurly-burly of competitive markets makes for a very noisy system with some companies ending up on top, or the bottom, for reasons that have relatively little to do with managerial acumen, strategic insight or visionary leadership. You might not think so, but it turns out that five and even ten years of finishing in the top 10 percent of all companies isn't enough to claim with confidence that a company is anything more than the right tail of a wide distribution.

To account for this problem, we began with Compustat's database of more than 25,000 companies publicly traded in U.S. markets from 1966 to 2010. With the help of Andrew D. Henderson, of the University of Texas at Austin, we used quantile regression to strip out extraneous factors such as survivor bias, company size, and financial leverage. Then we used simulation techniques to determine what sorts of performance benchmarks could reliably separate wheat from chaff. We identified a population of 344 exceptional performers from which we extracted a sample of eighteen high-performing companies for detailed analysis.

By our reckoning, our sample is the first to be selected with this kind of attention to this dimension of performance. When we applied our technique to the samples used in a selection of other similar studies, we found that barely 12 percent of the companies they identified as high performers passed this sort of test.

—M.E.R. and M.A.

NO JOY.

Regardless of what we focused on, just about every behavior we could measure and connect to performance seemed to fall on both sides of the performance divide in about equal measure. Take mergers and acquisitions. The academic literature on this is mixed, with some studies suggesting that in general sellers do better than buyers, which some take to mean M&A is generally a bad idea. Other equally credible studies conclude that although M&A can be risky, in the main it's as good a mechanism for pursuing profitable growth as the alternatives.

We proved unable to add anything to that debate. At first it seemed that avoiding M&A might be a key driver of exceptional results, since in one of the industries we studied, trucking, the top performer did absolutely no deals over a ten-year period while the mediocre company was highly acquisitive. Unfortunately, over the next fifteen years, it was the high-flyer that was on a buying binge. In the candy business, another of nine industries we analyzed in detail, it was top-performing Wrigley *and* the relative laggard, Rocky Mountain Chocolate Factory, that were focused on organic growth, whereas Tootsie Roll, a middle-tier performer, largely purchased its growth.

Every specific behavior we investigated proved a dead end, every promising lead nothing more than a blind alley. Customer focus? Yes and no. Innovation? Maybe. Risk-taking? On occasion. We were repeatedly reduced to a two-word sentence of surrender: "It depends."

Maybe, we thought, the lesson was that companies could be successful only if they did the *right* deals, pursued the *right* innovations, or took the *right* risks in the *right* sorts of ways. But how useful is that to managers making real decisions? About as useful as what is typically on offer in many management books: Get the right people on the bus! (Did anyone ever want the wrong people?) Have a clear strategy! (Does anyone ever set out to create a confusing one?) Give customers what they want! (Who deliberately gives them what they don't want?) If we couldn't be any more useful than that, there was no point to continuing.

DOING VS. THINKING

And then it hit us: The answer lay not in patterns of *behavior* but, instead, in patterns of *thinking*—not in what top-performing companies *did* but in how they *thought*. The question isn't, "Is M&A a good idea?" but, "How do you decide whether a given deal is good or bad?" Not, "Should we innovate?" but, "How do we choose which innovations to pursue?" Not, "Should we be risk-takers?" but, "How do we determine which risks to take?"

Like those Magic Eye 3D posters from the '90s that appear a meaningless jumble until they don't, we had stared at the data long enough for a coherent and fully formed image to finally reveal itself. From static created by the widely divergent outcomes of many and varied behaviors, three decision rules emerged that captured the essence of the specific choices exceptional companies made.

RULE #1: BETTER BEFORE CHEAPER. For all the filigree and nuance that burden discussions of strategy, there are really only two ways to compete. A company can stand out thanks to some or all of a great brand, superior functionality, greater ease of use, and so on—what we'll call collectively "non-price" dimensions of performance. Or it can choose to meet some minimal acceptable standards of performance and appeal to customers through lower prices.

Top-performing companies overwhelmingly adopt the former position. The more you compete on price, and the less differentiated you are on non-price dimensions, the less likely it is that you'll achieve exceptional outcomes.

For example, in 1980, when trucking companies had to differentiate themselves after deregulation, a host of new growth opportunities opened up. A top-performing trucking company we examined, Heartland Express, chose to keep its geographic footprint and number of customers relatively small in order to provide reliable and on-time service, no matter how complex or unpredictable its customers' requirements. This non-price differentiation earned Heartland a consistent price premium of approximately 10 percent, which was key to its consistently higher profitability.

Werner Enterprises, which did not perform as well as Heartland, chose instead to serve essentially the entire continental United States with a wide range of transportation services. This increased reach and diversity cut against the sort of focus required for the differentiation required to earn Heartland's price premium, while the need to secure economies of scale meant sometimes taking on less-profitable business to keep its trucks full and on the road. Only first-rate execution kept Werner in the game.

In other words, Heartland chose "better" while Werner chose "cheaper."

More compelling still, when an exceptional company abandons "better" for "cheaper," its performance often suffers. Maytag enjoyed on the order of two decades of standout profitability thanks to its commitment to "better," evident in its industry-leading products, powerful brand image (personified by "Ol' Lonely," the iconic Maytag repairman), and a very nearly unique distribution channel of tens of thousands of independent dealers. By the late 1980s, however, big box

stores were transforming the retail landscape, and the independent dealers upon which Maytag relied were no longer sufficient to meet Maytag's price and volume goals. To appeal to the new dominant retail format, Maytag diversified its product line and price points.

Now, there's nothing wrong with product diversification and competing in more price-sensitive segments. When the competitive landscape changes, as it did for Maytag, you can adapt your products to the new reality and still adhere to the rule. What matters is not whether your products are worse or your prices are lower than they used to be but whether your products are better and your prices higher than the competition's. Maytag ran afoul of the rules by compromising its relative position, not by facing up to the new realities of distribution in appliances. Performance deteriorated to the point that the company was acquired by Whirlpool in 2006.

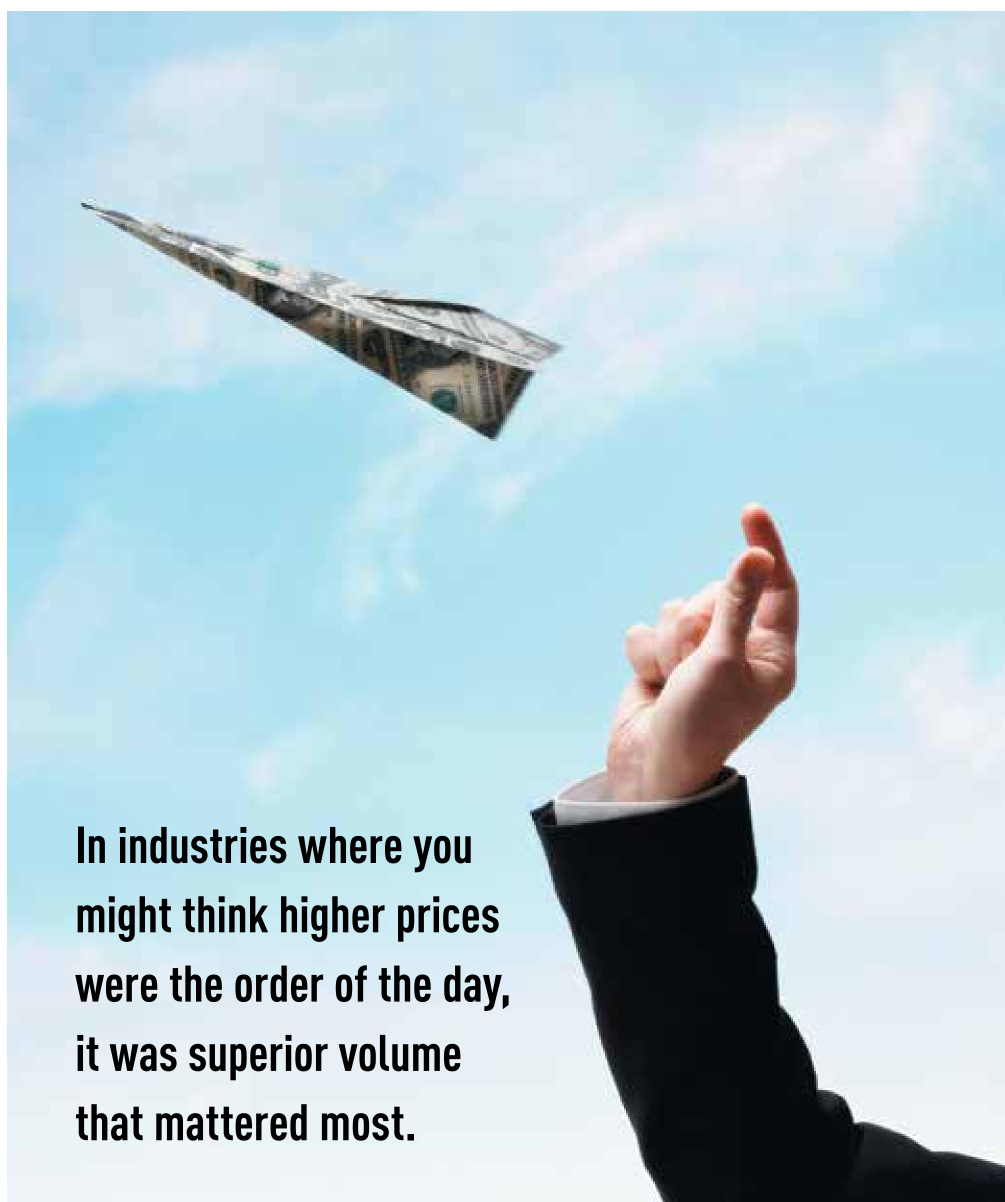
RULE #2: REVENUE BEFORE COST.

Choosing better over cheaper prescribes only how to create value for customers. The other shoe is how a company decides to capture value in the form of profits. As with position, there are only two ways one can be more profitable than a competitor: through higher revenue (which in turn is a function of some combination of higher unit price and higher unit volume) or lower cost.

Once again, there is a clear pattern, and by an overwhelming margin, exceptional companies generate superior profits through higher revenue than their rivals, with higher prices more popular than higher volume.

There's nothing startling about the notion that higher prices can lead to higher profits. What is surprising is how widely applicable this principle proves to be. In discount retail, for example, Family Dollar Stores has led the industry since the mid-1970s, and if any industry requires price leadership, you'd think it would be this one. Yet Family Dollar has maintained smaller stores while still stocking a wide variety of products. This is an unavoidably more costly model than the "pile 'em high" big-box labyrinths in the exurbs, but the extra costs are outweighed by the higher prices Family Dollar is able to charge thanks to increased convenience and small basket size combined with sufficient selection.

It also surprised us to find that in industries where you might think higher prices were the order of the day, it was in fact superior volume that mattered most. Consider the pharmaceutical giant Merck, which competed on the basis of the effectiveness of its patent-protected therapies. But so did the company to which we compared it, the lower-performing Eli Lilly. Merck's superior performance is explained primarily by a revenue advantage driven by higher volume thanks to more aggressive global expansion.



In industries where you might think higher prices were the order of the day, it was superior volume that mattered most.

So although both Merck and Eli Lilly followed the better-before-cheaper rule, Merck did a better job following revenue-before-cost.

RULE #3: THERE ARE NO OTHER RULES. Whether uncomfortable or liberating, it appears that in the pursuit of exceptional performance, everything but the first two rules should be up for grabs. For although determinants of performance such as human resources, operations, leadership, rewards, and culture must certainly matter, we found no patterns in *how* they matter.

The only consistency we found was in how high-performing companies changed their behaviors along these and many other dimensions in ways that kept them aligned with the first two rules. In other words, top-performing companies are doggedly persistent in seeking a position unrelated to low prices and adopting a revenue-driven profitability formula.

For example, Abercrombie & Fitch has stayed on top of a constantly changing retail clothing market through a succession of new images and formats. The flagship A&F brand remains strong, and growth has been driven in recent years by the Abercrombie kids brand, Hollister for teens, and Gilly Hicks for young women. For all this variety, the company has retained an unwavering dedication to *better*, which in this case means a brand-intensive value proposition and a higher-price-driven profitability formula.

An implication of this commitment has been the avoidance of promotions and steep markdowns: A&F has typically sold its clothing at about 70 percent of full price, which is higher than the comparable figure at many apparel retailers. This hasn't always been easy. When the recession hit in 2008, analysts criticized the company, as its same-store sales dropped more than its competitors' did. But A&F's persistence has preserved its brand cachet, and with the recent economic recovery, the company is returning to a level of profitability that its competitors find hard to match, having revealed to their customers that T-shirts don't have to cost $30 after all.

USING THE THREE RULES

These rules specify which hard problem is likeliest to give you the biggest bang for your buck, and are most useful when you face binding constraints. That is, when you are forced to choose among competing priorities, make your choices based on an assessment of which initiatives will contribute most to enhancing the non-price elements of your position and which will allow you to charge higher prices or to sell in greater volume. And choose them.

For example, if your six-sigma efforts are mostly about cutting costs, while your innovation efforts are mostly about

AND OR *BEFORE*

When it comes to choices, the only thing for sure is that many of us don't like to make them. How else can you explain rosé wine?

In business there is a long-running debate about whether tradeoffs are an unavoidable evil, the fountainhead of advantage or an unnecessary and self-imposed constraint that needlessly limits our potential. For example, the quality revolution of the 1980s seemed to reveal that you could have high quality *and* low cost, contrary to the conventional wisdom of the day. Similarly, it's been claimed that great companies are stable *and* adaptive, conservative *and* bold, deliberate *and* opportunistic, idealistic *and* pragmatic, and so on.

Yet the cornerstone concept of strategic positioning is that tradeoffs are inescapable. Without tradeoffs, the notion of being differentiated would be impossible, since the low-cost producers could also be the high-quality producer.

We see tradeoffs as very often ineluctable facts of life. The most powerful car cannot also be the most fuel-efficient car, given the current state of the art in designing internal combustion engines. It is these tradeoffs that allow some cars to be differentiated by speed while others are differentiated by lower operating costs. Yet, if at some point it becomes possible to break that speed/fuel economy tradeoff, terrific: That car is likely to do quite well. (In fact, breaking tradeoffs is how we define an innovation.)

We make no claims as to whether the tradeoff between *better* and *cheaper* or *revenue* and *cost* can be broken in a given instance. The company that *can* break those tradeoffs *should* break them, since we expect that to be a recipe for exceptional performance beyond anything we've ever seen.

However, we didn't see such companies among our top performers, or anywhere else in our database. And that's why the rules are not "better and cheaper" or "revenue and cost." Rather, when you must make a tradeoff, when you cannot be all of better, cheaper, higher volume, and lower cost, the rules provide guidance on which tradeoff to make.

—M.E.R. and M.A.

separating you from the pack, put the incremental investment behind innovation. But if pushing the envelope on operations is about providing differentiating levels of customer service while innovation seems geared to doing the same for less, then give operations the additional care and feeding.

Similarly with M&A. If a particular deal is being justified solely in terms of economies of scale, it might be essential to survival, but it is unlikely to drive exceptional performance. In contrast, bringing into the fold a company that provides the opportunity to expand and thereby realize the growth potential of a non-price position that your company has already earned is far likelier to be a catalyst for greatness.

In the end, of course, the rules are not a one-size-fits-all strategic blueprint for success. In every case, it takes work to determine precisely how you need to be better, and precisely what it takes to drive revenue. But as the saying goes, if you're asking the wrong question, the answer simply doesn't matter. And thanks to the three rules, you can have a new level of confidence that you are asking the right questions.

Now, go soar like an eagle, and land not a moment before you must. ■

BEYOND THE SAMPLE

The sort of research required to understand what accounts for one company's performance advantage over another is perforce enormously labor-intensive. Most of the "success study" books you read talk about how long and hard they had to work to generate their conclusions: *Built to Last* claims six years of toil; *Good to Great* required five years of hard time, as did *What Really Works*. Our efforts consumed much of our creative energies for the better part of a decade.

As a result, the sample sizes are generally quite small, with detailed case-study analysis rarely applied to more than a couple dozen companies. We looked at twenty-seven in depth—eighteen exceptional firms plus, as a control group, nine average performers.

To test whether the findings generated by an analysis of our sample actually said something about a larger population of companies, we conducted a detailed statistical analysis on the structure of the performance advantage of our entire population of 344 high-performing companies. Although we couldn't replicate the detail of the analysis on our sample, we did find that the highest-performing companies tended to rely more on higher gross margin than on lower cost as a source of performance advantage, suggesting a *better before cheaper bias*. Top performers also tended to have stronger growth rates while achieving very little advantage from an edge in pure asset efficiency, consistent with *revenue before cost*.

As a result, we can say with some confidence that our rules apply to the population of exceptional performance, not just the sample we happen to have examined.

—M.E.R. and M.A.

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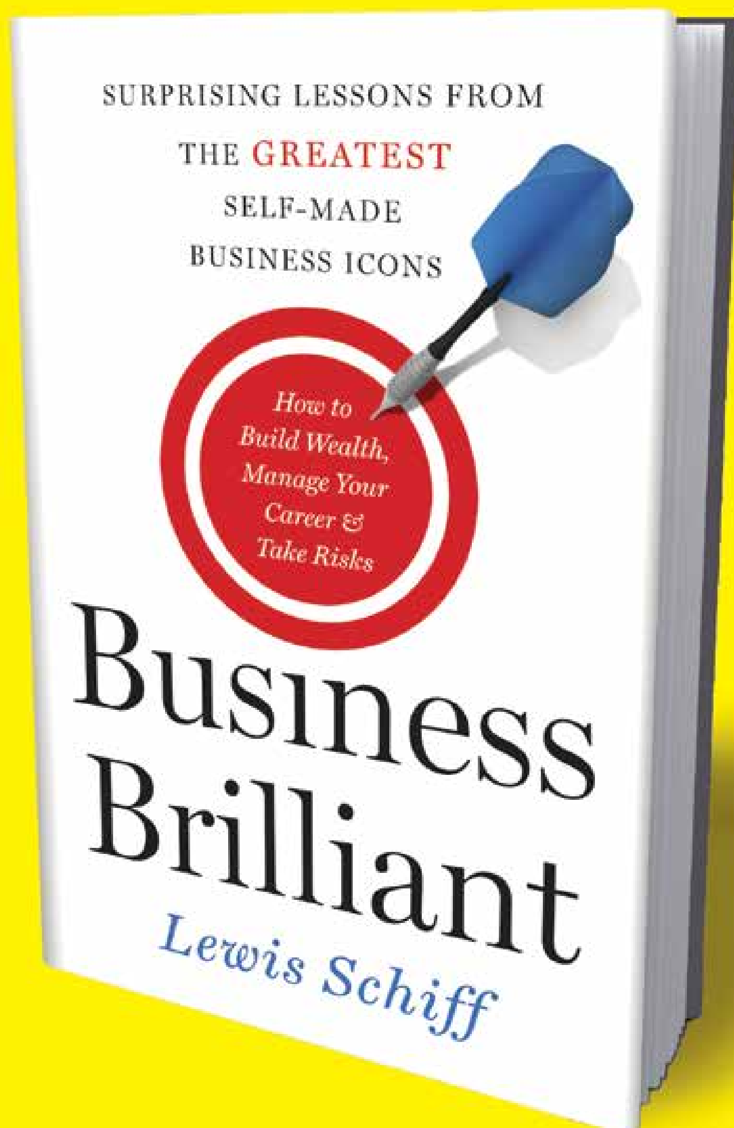

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HARPER BUSINESS

J.C. CARLESON was an undercover CIA officer for eight years. Adapted from *Work Like a Spy: Business Tips From a Former CIA Officer* (Portfolio/Penguin). ©J.C. Carleson, 2013.

BY J.C. CARLESON

The hotel bar had been crowded with trade-show attendees all evening, but it was getting late and only a few stragglers remained. A man in a disheveled suit was nearing the bottom of his glass when a woman sat down on the barstool next to his. She wearily hoisted a heavy canvas bag emblazoned with the trade-show logo onto the empty seat on her other side. She glanced at the lone man's name tag briefly and then pointed to her own, indicating that they were both attending the same event. "So," she asked, "are you celebrating or drowning your sorrows? It seems like a pretty tough sell out there this year."

In fact, the man had been having terrible luck lately with sales, and with several strong drinks already in his system, he didn't mind telling the stranger in the business suit that he was getting fed up with his current line of work. When she told him that she knew of a possible job opening for someone with his background, the man perked up and shifted immediately into interview mode. Eager to impress a woman who might be able to help him get a more lucrative position, he bragged at great length about both his current position and his previous experience working as a technician in a government laboratory in his home country. He might have embellished his track record slightly, but the woman seemed impressed, and she insisted on buying the next few rounds of drinks.

THE WOMAN IN THE BUSINESS SUIT WAS ME. The man was a target I had been studying and watching from afar for quite some time. When I finally found him sitting in the bar without any of his colleagues or fellow countrymen, and with his tongue already loosened by a few drinks, I knew that I had a golden opportunity. In his heavy accent, the man told me everything I needed to know about his background, including some compromising details about the research being conducted in the highly classified laboratory where he used to work. For the price of a few drinks and the hint of a job opportunity, the conference attendee provided me with information of great value to the U.S. government.

Most of us would like to believe that we wouldn't be such easy prey. Before you scorn the man for being an easy target, though, put yourself in his situation. Imagine yourself constantly on the road, traveling from trade show to client site to corporate retreat and back again. You spend your days in airports and your nights in hotels that have all started to look the same. You live out of a suitcase and rarely

see your friends or family. When a well-dressed stranger with whom you clearly have business in common strikes up a friendly, benign conversation, wouldn't you welcome the opportunity to chat? The man wasn't necessarily an easy target—he was just a typical lonely business traveler. I'm quite sure that he had no idea whatsoever that the information he was providing was compromising or valuable.

If you had been in his place, would you have recognized the situation for what it was? It's doubtful. And if not, how do you enhance your sense of personal and business counterintelligence? You need to protect yourself and your organization in a competitive business climate in which private citizens are increasingly facing some of the same threats that CIA officers have been dealing with for years.

THE KEY TO BUSINESS COUNTER-INTELLIGENCE is to avoid ever falling victim to information thieves who may target you without your even knowing it. If you think that you can safely skip this article because your job doesn't give you access to "secrets," think again, since the very definition—and value—of secret information is constantly changing.

When the Cold War ended, the prevailing currency of the spy game changed. State secrets were devalued by the new openness of glasnost and the improvement of diplomatic relations between former enemies. Within the private sector, on the other hand, the value of trade secrets skyrocketed as the concept of a worldwide economy grew, and technology made the world suddenly seem to become a much smaller place. The post–Cold War changes in the global political economy turned the spy world on its head. Suddenly there was less need for clandestine officers within the traditional political arenas, and more need for them in the business world. Spies, being an entrepreneurial bunch by nature, embraced the shift.

IF YOU THINK THAT YOU CAN SAFELY SKIP THIS ARTICLE BECAUSE YOUR JOB DOESN'T GIVE YOU ACCESS TO "SECRETS," THINK AGAIN, SINCE THE VERY DEFINITION—AND VALUE—OF SECRET INFORMATION IS CONSTANTLY CHANGING.

With these changes, however, the predictability of espionage decreased. Whereas it was once fairly obvious what the KGB was after, for example, and just how far they would go to get it, suddenly a whole new target set emerged. Traveling business executives began to suspect that someone had been in their hotel rooms while they were out. Sales reps at highly specialized trade shows suddenly became very popular, and found themselves on the receiving end of numerous invitations to socialize. Business travelers in certain parts of the world were surprised by late-night knocks on their hotel room doors from attractive, scantily clad women claiming an overwhelming desire to "practice English." Those who gave in to temptation often discovered their pockets a little lighter the next morning. Briefcases and laptops were stolen with alarming frequency. American engineers of Chinese heritage were approached by Chinese officials who made aggressive pitches for sensitive information focused on ethnic and cultural loyalty. Spy tactics had trickled into the business world, and many executives were caught unawares.

It didn't take long for the rules and parameters of espionage to change forever.

STATE SECRETS ARE NO LONGER THE GOAL OF CHOICE for entrepreneurial spies; the spy game has now shifted toward private industry. The reason is simple: money. In fact, the FBI now estimates that losses stemming from industrial espionage are in the billions of dollars annually. Billions! It's no surprise, considering just how many ways—both legal *and* illegal—there are to obtain sensitive data from a company. To name just a few:

- Public record searches
- Dumpster diving
- Electronic surveillance
- Reverse engineering
- Computer theft
- Soliciting information from unwitting employees at industry events
- Planting of "mole" employees within a company

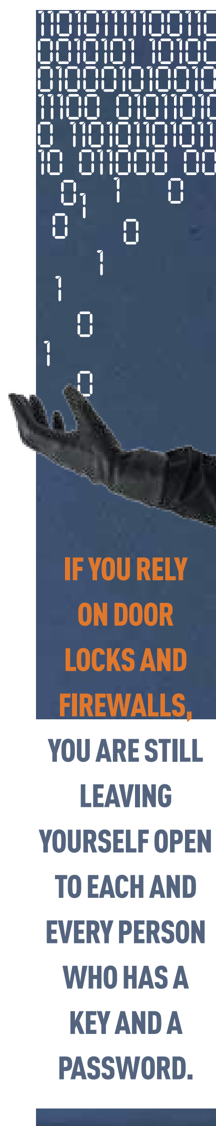
- Interviews with former employees
- Computer network intrusions
- Press articles
- Analysis of a company's Web traffic
- Regulatory rulings obtained via Freedom of Information Act requests
- Patent reviews
- Creating mirror websites or phishing portals from a company's website
- Identity theft
- Fake job applicants
- Analysis of employee travel patterns
- Information obtained from consultants or contractors eager to share "success stories"
- Theft by disgruntled employees
- Internet worms
- Data confiscated by foreign officials during overseas travel
- Hiring away of key employees

From the mundane (data mining) to the sensational (blackmail), there are countless ways for your competitors to obtain information that you would rather not share, and then use it to their advantage. Business counterintelligence refers to efforts to identify and thwart such damaging corporate espionage.

Certainly, companies that work on top-secret government contracts have extensive safeguards in place, and typically employ in-house security experts (many of whom are former CIA or FBI officers) who provide

rigorous counterintelligence training to employees with access to classified information. But just because the information that you deal with on a daily basis isn't classified by the U.S. government doesn't mean that it isn't of significant value to *someone*.

For example, employees in HR functions have access to personal information about other employees, as well as advance knowledge of key personnel changes. Lawyers, accountants, and finance professionals possess sensitive client information; many government employees have access to regulatory information that would be of great value to the regulated parties; hospital workers are in control of highly personal medical information; software engineers have access to source codes; research-and-development scientists know what their company is coming out with next; administrative professionals know their boss's home address, travel, and meeting schedules (and in many cases, his or her vices); network administrators have access to all of a company's electronic data; the janitor has physical access to the building and the computers when no one else is around . . . the list is endless. *The possible leaks are endless.*



IF YOU RELY ON DOOR LOCKS AND FIREWALLS, YOU ARE STILL LEAVING YOURSELF OPEN TO EACH AND EVERY PERSON WHO HAS A KEY AND A PASSWORD.

BEFORE YOU START PROTESTING any of the above examples by citing the various laws, statutes, rules of professional conduct, or ethical standards that *should* prevent any of these groups of people from divulging information, take a moment to consider the reality. Yes, it may be illegal, unfair, counterproductive, and just plain wrong, *but it happens*. Insider trading happens. Source code is leaked to overseas manufacturers who produce pirated versions. Tabloid magazines obtain and publish highly personal medical data about celebrities—including Britney Spears and Whitney Houston in two highly publicized cases. Films and music albums appear for sale overseas well in advance of their official release dates. Employees sell data, leak data, or even just accidentally leave laptops containing data in the back of a cab. It happens.

Like it or not, there is an enormous and powerful market for stolen information. People who make their living by dealing in black market data are shrewd, manipulative, and proficient at obtaining information from both complicit and unwitting sources.

Feeling paranoid yet? Pristine information-security practices and judicious use of nondisclosure agreements can be very helpful in protecting your sensitive data, but legal and technical precautions can go only so far. Ultimately, there is no foolproof method to protect against the collection of human intelligence. Your best defense is an acute sense of awareness, and a practiced ability to sense a scam.

IN A WORLD WHERE INFORMATION HAS A PRICE, it pays to be vigilant. However, at the risk of contradicting myself, I would also caution you against paranoia. I know many CIA officers who are so protective of their clandestine status that they are reluctant to reveal even harmless personal details. Not only does this make it extremely difficult to have a normal conversation with them—they also manage to stand out suspiciously by their overly secretive demeanor.

Moreover, the reality is that business counterintelligence is generally of more concern at the organizational than the personal level. Other than the most senior executives, it is the rare private-sector individual who is targeted for reasons other than proximity and vulnerability (in other words, for being in the wrong place at the wrong time). Unless you have a particularly sensitive position or unique access to highly compartmentalized data, information thieves typically view you as interchangeable with any of your colleagues (just when you were feeling special!). *You* are only one of many different ways to get at data. As a result, even basic precautions and vigilant situational awareness can drastically reduce your chance of falling prey to scams. Just as a burglar will choose to skip the house with the barking dog in order to rob the less protected house next door, so will data thieves opt for the easiest target.

Nevertheless, a healthy sense of caution and fine-tuned observational skills can benefit anyone, in any position—whether the threat comes from organized industrial espionage or simply a co-worker who is trying to sabotage your chances of promotion.

COUNTERINTELLIGENCE IS ALSO A MORE DIFFICULT SUBJECT TO TACKLE at the organizational than the personal level, for a variety of reasons. First, at the

organizational level, an overemphasis on security and compartmentalization is counterproductive and even detrimental. While an overly secretive individual will simply appear to be strangely reserved or standoffish, an organization with an overabundance of secrecy will fail to flourish. Can you imagine a company in which the senior management team is not allowed to share data, even with one another? Their information would be secure, but their ability to make informed decisions would be severely diminished.

Organizational security, by definition, restricts communication and collaboration. There are pros and cons to enforcing security, then. No matter how sensitive the industry, a certain level of transparency and communication within an organization is necessary in order to leverage intellectual capital, minimize redundancy, and to simply ensure that everyone has the information he needs to get his job done. Balancing communication and security can be a difficult task. The CIA has struggled endlessly with the dueling requirements to both share and protect information; there exists a perennial internal battle in the intelligence community between analysts who need access to data in order to produce finished intelligence and the clandestine collectors who have to personally deal with the sometimes horrible repercussions of leaked information. There is no easy answer, and CIA officials have become accustomed to navigating the difficult and perpetually changing gray area between too much and not enough secrecy.

What's the biggest mistake that companies make as potential targets of corporate espionage?

J.C. Carleson: The biggest mistake that I see boils down to a misconception about the nature of the threat.

We can blame Hollywood for the misunderstanding: the tendency to believe that corporate espionage looks like a carefully orchestrated, cloak-and-dagger act that only affects companies in possession of capital-S Secrets. But while whispered meetings with moles planted in defense contractors' boardrooms make for good television, the reality of intellectual-property theft is usually more mundane. It's far more likely to come in the form of slow, steady leaks than as a flashy, James Bond-worthy offensive.

More often than not, those leaks come from former employees. But that's not because your ex-colleagues are out there peddling your company's secrets or sabotaging anything or anyone. It's more likely that they're simply showing up at their new jobs using and sharing the skills and knowledge they gained while working for your company. On a case-by-case basis, this is harmless. But lose enough employees to the right competitor and, before you know it, your rival has a staggering collection of data, processes, and strategies that used to be yours. It's an aggregate threat, not a surgical strike.

No organization would ever dream of going without proper IT security, but few devote even a fraction of the attention or budget to the risk posed by this more subtle form of data siphoning.

Organizational counterintelligence is also a difficult subject to tackle because good counterintelligence practices can be highly variable depending on the industry, the product, the nature of your competitive advantage, the critical skill sets, the relative strength of the competition, the geographic location, and even the economy. Nevertheless, the need to use good business counterintelligence practices applies whether you are a one-person business in which you, the sole employee, work at home in your pajamas or a multinational corporation with a global presence. If you have even a single competitor—whether that competitor is a co-worker or a rival company—you have a valid reason to safeguard your competitive advantage.

Most companies fall into the trap of believing that adequate physical and IT security will suffice to protect their business from industrial espionage or sabotage. But if you rely on door locks and firewalls, you are still leaving yourself open to each and every person who has a key and a password, and your business will only be as secure as your most unethical/disgruntled/sloppy/debt-ridden (pick your vulnerability) employee.

Take it from someone who spent years stealing secrets from people: Security and counterintelligence plans that ignore human frailties are incomplete at best. ■

SUSTAINABILITY EFFORTS MAY BE A MATTER OF SURVIVAL, BOTH CORPORATE AND HUMAN.

BY MARK R. TERCEK AND JONATHAN S. ADAMS

THE BUSI- NESS CASE FOR NATURE

Working in cities seems foreign to many environmentalists, and working with global corporations may seem even more so. Corporations such as Dow Chemical, Shell Oil, or mining giant Rio Tinto have huge environmental footprints—why work with them? But shouldn't we try? The bigger the company's footprint, the bigger the opportunity for the company to reduce its impact on the environment by changing its behavior.

MARK R. TERCEK is president and CEO of The Nature Conservancy and a former managing director at Goldman Sachs. JONATHAN S. ADAMS is a science writer and conservation biologist. Adapted from *Nature's Fortune: Why Saving the Environment Is the Smartest Investment We Can Make*, available from Basic Books, a member of the Perseus Books Group. ©2013

In many of the places conservationists want to protect, the underlying threat is human demand for food, energy, space, and water. Companies are the agents for this demand. Customer demand pushes companies to build more roads and other infrastructure, expand agricultural lands, and extract more minerals, oil, and natural gas. Simply ignoring these trends would only put the planet in greater peril. Likewise, just saying no to these companies and their customers is unlikely to be a successful strategy.

Even companies leading the way on sustainability still have a long way to go.

Instead of saying no, what if environmentalists ask "how"? How might these companies change their practices to achieve better environmental and business outcomes? How might government create incentives for companies to invest in and protect nature rather than degrade it? Asking how can change the way people think in important ways and deserves to be thoroughly explored.

NO GUARANTEES IN NATURE

Of course, some CEOs may superficially support environmental causes simply to achieve good PR—a practice called greenwashing. But in today's ever more transparent world, that should be easy to avoid.

Even if some greenwashing continues, most business leaders increasingly understand that the main drivers of environmental action go far deeper than good PR, regulatory compliance, or even a desire to "do the right thing." Sustainability is moving from a fringe concern to a core focus of business decision-making. Conservation helps companies manage risks to their supply chains, keep costs down, identify new market opportunities, and protect essential business assets. Likewise, employees and customers today strongly prefer companies whose values align with theirs. Smart environmental strategies are an essential way to achieve such alignment.

The breakthrough insight is when companies recognize that the services they rely on from nature but heretofore took for granted and got for free, such as clean water and flood protection, will be neither guaranteed nor free in the coming years.

For example, in 2011, Dow CEO Andrew Liveris challenged The Nature Conservancy to help the company apply the concept of natural capital to his company's business decisions and operations. He and his team wanted to answer the following questions, again focused on how: How do Dow's operations both affect and depend on nature's services? How would the natural assets that generate such services be accounted for on the company's balance sheet? How vulnerable are those services, and what might Dow do about those vulnerabilities—either on their own or by joining with other stakeholders to influence natural-resource policy? How do such services also benefit the community? Would Dow's engagement in these issues have a ripple effect on other companies? The project that will attempt to answer these questions, now well under way, is a promising example of how the concept of natural capital can help change the way business is done.

Collaboration does not mean that companies should expect a free pass from environmentalists. Even companies leading the way on sustainability still have a long way to go. Some honest attempts between environmentalists and companies to collaborate will no doubt prove disappointing. When that happens, we should tell that story as well.

Helping companies that have big footprints and enormous influence in the market to make better decisions and understand the value of nature has the potential to create real conservation gains.

STAKING YOUR CAREER ON A WETLAND

In 1996, regulatory pressure at a chemical plant in Seadrift, Texas, dictated a need to increase the facility's water-treatment capacity. Engineers usually design such operations conventionally. For engineers, the first, second, and third options all generally involve pouring large amounts of con-

How would the natural assets that generate such services be accounted for on the company's balance sheet?

crete. So in Seadrift, the company assumed that it would build a water-treatment plant, at a cost of about $40 million.

One engineer at Seadrift had other ideas. Perhaps he knew how New York had saved millions on water treatment; perhaps he had kept up with the academic literature on green infrastructure; perhaps he was simply clever. Whatever the reason, something prompted this engineer to make a bold move. He staked his career on an unconventional solution: constructing a wetland.

Rather than pour the concrete, the company built a wetland next to the manufacturing plant. The engineer's colleagues likely thought him nuts at first. But instead of spending $40 million on a conventional treatment system, the company spent $1.4 million on an unconventional one. Now the wetland treats 5 million gallons of water per day, meets all regulatory standards, and—a bonus for nature—provides habitat for a variety of wildlife.

The basic principles at work in Seadrift are familiar: Consider the value of both green and gray infrastructure, and invest appropriately. But there are two big differences here. The first is the company involved. This was no ordinary chemical manufacturer: The company that owns the Seadrift plant is Dow, the world's second-largest chemical manufacturer.

The second difference is that plant management did not base the project decision on a law or regulation; or out of a desire to avoid a particular risk, such as a flood; or because the company depended on a particular resource, such as water; or because the company wanted good PR. Simply put, the engineer's decision was just good business. He weighed the options, examined the pluses and minuses, and decided to invest in nature.

The consequences of that decision are far from simple. Dow's products are ubiquitous but largely unseen by consumers, ingredients in everything from building materials to pet food. Dow's facilities consume vast quantities of water, so it owns large amounts of land along rivers and on coasts. The company makes dozens of products that would be toxic or otherwise harmful to people, the environment, or both if accidentally spilled or released.

In short, Dow has an enormous environmental footprint. It also has enormous market share and a global brand. Those factors combine to make Dow a promising partner for conservation. Companies pay attention to one another, particularly their competitors within industrial sectors. If a large and globally recognized company like Dow changes its environmental behavior and improves its business as a result, other companies are likely to follow Dow's lead.

Corporations benefit when they understand their dependence on nature. Many forward-thinking companies—among them 3M, DuPont, General Mills, Caterpillar, and Dow—already know this. The depth of the change in perspective this entails should not be underestimated—it is fundamental. For generations, economists assumed that manufacturers could run down natural capital as much as they wanted, so long as the economy overall created enough manmade capital to replace it. When the scale of economic activity remained small in comparison to the scale of the planet itself, this may have been a workable assumption—but not anymore.

As companies begin to better understand this dynamic, they are seeing opportunities for new products and markets. A clearer vision of the importance of nature to businesses also points to ways to decrease environmental, legal, and social risks. But the real payoff comes when corporations include the value of nature in all of their business decisions. Then, billions of dollars in economic activity can become an engine for the conservation of nature rather than its destruction.

DOW'S EFFORT TO VALUE NATURE

The evolution of Dow's approach to these issues shows how far the corporate world has come. The company's first set of ten-year environmental goals in 1995, while admirable in many ways, mostly looked inward and focused on improving the company's environmental, safety, and health performance. No real surprise there. This was an incremental step, not a revolutionary leap.

With its next set of ten-year goals in 2005, Dow began to look beyond its walls to see how it could contribute to solving

bigger problems than its own safety and environmental record. In 2010, halfway through its latest ten-year goals, Andrew Liveris asked VP Neil Hawkins, who began at the company as an engineer and rose to head its sustainability efforts, to review the goals and identify the biggest gaps. Hawkins—showing how a bold corporate sustainability officer can make big changes—concluded that the company, which had an admirable conservation ethic around its facilities, had taken few steps beyond its own concerns to give tangible form to its stated value of protecting the planet.

That brought Hawkins and Dow to a crucial moment. How would the company move forward and embed environmental values into changing the way it made decisions? Scientific evidence on the value of nature to a company such as Dow may be clear and the economic arguments compelling. However, that evidence and those arguments will not carry the day until they serve as the basis for useful business tools, strategies, and policies. That is the challenge for Dow, for other corporations, and for the conservation community.

The company wants to know how to account for the value of that water.

WHITHER THE BRAZOS?

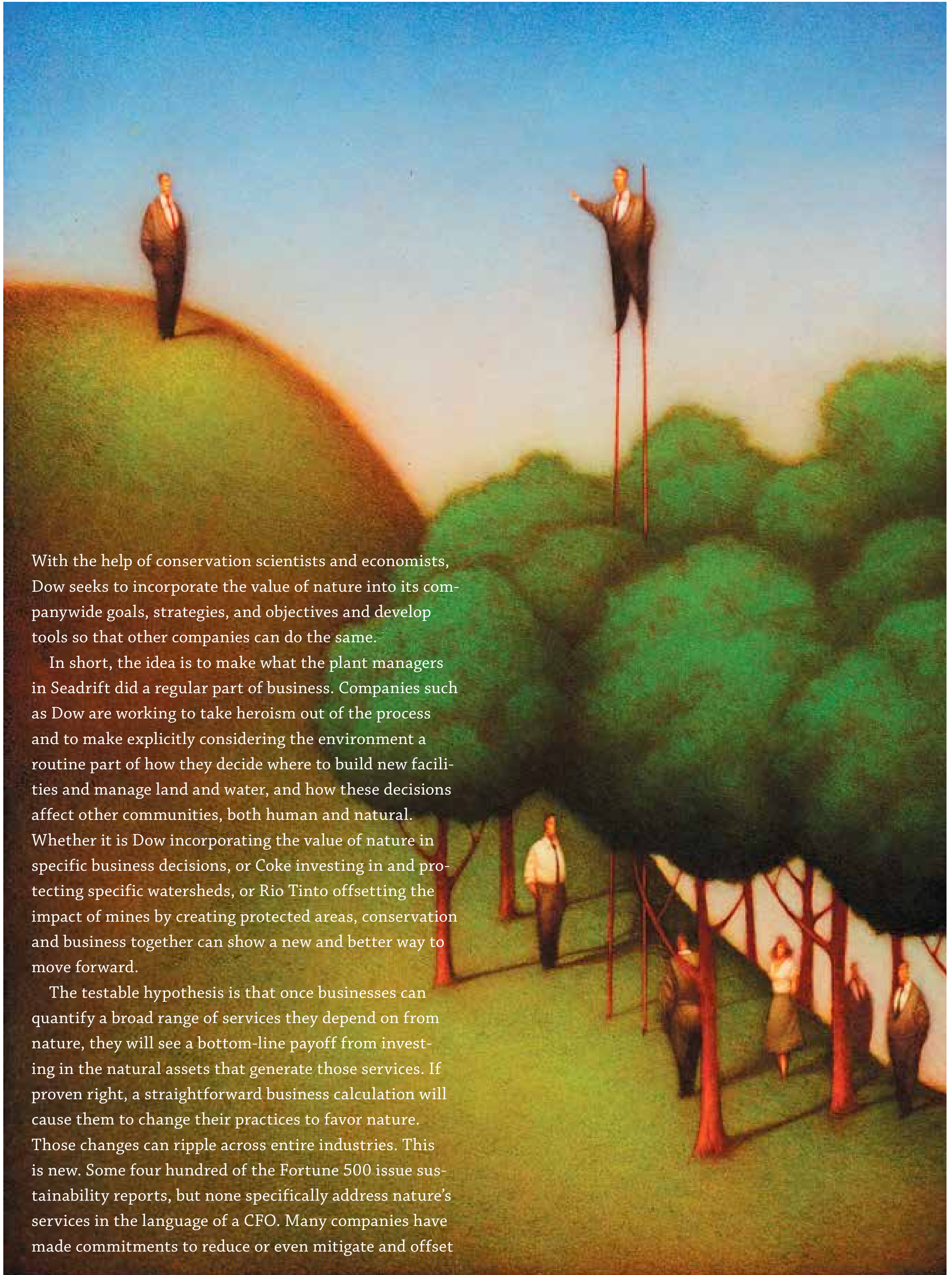
Dow Chemical was born in Michigan and still keeps its corporate headquarters there. The heart of its global operations, however, lies in Texas, and the success of those operations depend to a considerable degree on a single resource: the Brazos River. The Brazos rises in north-central Texas, about two hundred miles northwest of Dallas. From there, it flows north toward Oklahoma before turning back to the Gulf of Mexico. More than eight hundred miles long, the Brazos is the longest river in Texas. It may also be the most endangered.

The city of Houston continues to grow and demands ever-increasing amounts of water from the Brazos. Other cities use its water as well. Farms for cotton and rice—water-intensive crops, propped up by heavy subsidies—and various industrial facilities also have claims on the river. Ironically, one of the more senior water rights holders happens to be the one farthest from the river's source. Just where the Brazos enters the Gulf, near the city of Freeport, is Dow's oldest site, one of the world's largest chemical facilities. Dow began building its Freeport complex in 1940. The site was perfect: right on the river, near a fine harbor, with natural-gas reserves and salt domes nearby. Freeport is now the company's largest manufacturing facility, with more than sixty-five production plants on more than seven thousand acres and employing some eight thousand people. Freeport accounts for more than one-fifth of Dow's global production.

As the Freeport site grew, so did its appetite for freshwater—75,000 gallons per minute. Dow purchased senior rights to water from the Brazos, but that claim will mean little if no water remains in the river by the time it gets to Freeport. That is no idle fear: The Brazos nearly ran dry during the horrific Texas drought of 2010–11. Climate change may bring even worse droughts in the years ahead, along with increasingly severe storms in the Gulf of Mexico. Dow now sees that it has to address the larger landscape context for Freeport and indeed all its operations. Water is vital to Freeport, and Freeport is vital to the company, so obviously the future of the Brazos is a major concern. However, addressing that problem is not enough: The company wants to know how to account for the value of that water and, indeed, all of nature.

A BOTTOM-LINE PAYOFF?

Dow needs to look no further than its own history for a model of how accounting for nature might work. Several decades ago, Dow made worker safety a top corporate priority, something every employee was aware of every day, through training programs and constant reinforcement from middle managers up to top executives. In this the company might have been a bit too successful—the joke in Midland, Mich., where Dow is headquartered, is that you can tell which houses are owned by Dow employees because they are the folks mowing their lawns wearing earplugs and safety glasses. The focus on safety has become so pervasive that even visitors to Dow facilities quickly become uncomfortable using the stairs without holding onto a handrail. One can imagine that protecting nature will become as deeply embedded in the corporate culture, and that will be a major milestone. In 2011, Dow became the first Fortune 50 company to launch a broad-based program to get there, through a five-year collaboration with The Nature Conservancy. The collaboration is investigating linkages between business operations and the environment, with the goal of making sure that Dow can value nature and its services in everything the company does.



With the help of conservation scientists and economists, Dow seeks to incorporate the value of nature into its companywide goals, strategies, and objectives and develop tools so that other companies can do the same.

In short, the idea is to make what the plant managers in Seadrift did a regular part of business. Companies such as Dow are working to take heroism out of the process and to make explicitly considering the environment a routine part of how they decide where to build new facilities and manage land and water, and how these decisions affect other communities, both human and natural. Whether it is Dow incorporating the value of nature in specific business decisions, or Coke investing in and protecting specific watersheds, or Rio Tinto offsetting the impact of mines by creating protected areas, conservation and business together can show a new and better way to move forward.

The testable hypothesis is that once businesses can quantify a broad range of services they depend on from nature, they will see a bottom-line payoff from investing in the natural assets that generate those services. If proven right, a straightforward business calculation will cause them to change their practices to favor nature. Those changes can ripple across entire industries. This is new. Some four hundred of the Fortune 500 issue sustainability reports, but none specifically address nature's services in the language of a CFO. Many companies have made commitments to reduce or even mitigate and offset

their impacts on nature—a positive development, to be sure—but no company has figured out how to comprehensively incorporate nature into its routine business decisions.

Building the value of nature into business requires strategic and cultural changes across every company. This transformation ranges from developing new business and sustainability goals, to identifying the types of decisions that should include evaluating nature, to specifying the factors that CFOs and other senior executives should consider when evaluating new sites, site changes, and new products and services. Companies must move from asking the question of why nature matters to business to more practical questions of how they need to change their business goals and processes.

Dow's strategy is not risk-free from a conservation perspective.

KEEPING THE WATER FLOWING

The initial focus of the collaboration between Dow and The Nature Conservancy is on the Freeport facility. Here the company and conservation scientists can review Dow's core business functions and work within the conditions of a site with longstanding methods and operations. The first time that Dow's engineers sat down with the ecologists and other experts, they found themselves talking past each other. Working through that will be an ongoing process over the five years of the collaboration. There will also be other pilots, including one in Brazil. The idea is to study a variety of business models, supply chains, and other aspects of Dow's business to ensure a comprehensive analysis.

The biggest challenge will be putting dollar values on the goods and services Dow gets from nature. As a start, Dow is looking at three aspects of natural capital in Freeport: the Brazos River, coastal marshes and wetlands, and an area of forest known as the Columbia Bottomlands.

In the Brazos River, on one level, the math is easy enough: Demand for water is going up, and supply is going down. Dow would lose millions if it has to shut down the Freeport plants because of a lack of water. Such tidy equations hide a great deal of complexity. For example, what exactly is driving the anticipated drop in water supply? Data and climate models to date are not promising. Human demand for water is forecast to continue growing, while climate change may bring a greater likelihood of both drought and catastrophic storms and floods.

Water quantity is also not the sole concern. Water quality, particularly salinity, is another major issue for Dow. Salt water and manufacturing equipment do not mix. Salt water must be treated before it can be used, and such treatment increases costs. During periods of drought and low river flow, salt water from the Gulf of Mexico migrates as far as forty-two miles up the Brazos River. Since Dow's major water intake is in the Harris Reservoir at mile forty-four, the location of the "salt wedge" is getting uncomfortably close.

As Dow understands the value of water to its business, this understanding can guide it on how much to invest in securing future supplies. Not long ago, a company like Dow might have addressed this challenge with brute force: Bring in the engineers and build another pipeline, another reservoir, another dam. But today the company understands the need to think big, to see water as more than simply an input to production, and to situate its operations in the context of the broader landscape.

In one sense, water is the easiest resource to address because its benefits to a private company are so clear. It should be easy to persuade self-interested companies to invest in water conservation. However, water represents just one narrow slice of the values of nature. TNC and Dow are also trying to assess the full range of benefits that nature provides to the public. Some of these other values may not be as clear to a company as water or timber, but they can affect a company's position in indirect ways, by shaping the company's reputation and its relationship with local communities, and even its effects on staff members who live in the region. All of these values of nature matter. The challenge now is to provide data and tools that companies can use as factors in decision-making alongside more traditional business costs and benefits.

WILL GREEN TURN BLACK?

Dow's strategy is not risk-free from a conservation perspective. After looking at the costs and benefits of all options and taking account of the values of nature, the company may decide that standard engineering solutions better fits its bottom line. There are no guarantees. But even if several decisions go against conservation interests, building nature into all of Dow's decisions across all of its facilities is an important step in the right direction.

Some environmentalists are unwilling to work with corporations like Dow on projects like this. But that can be a good thing, too. Some of these organizations—Greenpeace or Rainforest Action Network, for example—play the crucial role of environmental watchdogs. The watchdogs keep a close eye on

HOW COMPANIES BECAME RESPONSIBLE

In the environmental community, suspicion of global corporations runs deep. Many of these companies have a long history of disregard for public and environmental health. For some environmentalists, that history is definitive: once a polluter, always a polluter.

A fuller telling of the story is less clear-cut, but one milestone was painfully obvious. In 1989, the *Exxon Valdez* ran aground in Alaska's Prince William Sound, spilling at least eleven million gallons of oil. Six months after the spill, a group of investors, public-pension trustees, environmental NGOs, foundations, public-interest organizations, and labor unions founded the Coalition for Environmentally Responsible Economies (CERES). Its first task was to draft a set of principles for corporate environmental conduct, including biosphere protection, sustainable use of resources, and environmental restoration. This marked the first broad, public effort to get corporations to commit to reporting on and reducing their environmental impacts.

One businessman in particular saw an opportunity for real change. In 1990, Swiss industrialist Stephan Schmidheiny founded the World Business Council for Sustainable Development. Preparations for the first world environment summit, to be held in Rio de Janeiro in June 1992, were already under way. Intended to ensure that world leaders at Rio heard from the business community, the council included the CEOs of forty-eight major corporations, including Royal Dutch Shell, Chevron, DuPont, and Dow.

Negotiations for the treaties that governments expected to sign at the Earth Summit, as it was called (the formal name was the U.N. Conference on Environment and Development), involved thousands of people from government agencies, nongovernmental organizations, academia, and business. The prospect of national governments making economically significant, binding commitments on climate change, biodiversity conservation, and desertification got the attention of business leaders. Many of the companies that signed on to the Council or various spinoffs likely did so for the PR benefits of being seen as green. Without a doubt, some businesses resisted making hard changes in their operations and tried to make do with better rhetoric. In the mid-1990s, not even the most committed among them fully understood the value of nature to their business as a whole. Some companies sought to avoid regulation; others began to value nature in specific contexts, as Coke now values water. The CERES Principles, the Business Council for Sustainable Development, and the Earth Summit accelerated new thinking about the relationship between business and the environment. Attitudes inside and outside of companies such as Dow, DuPont, and SC Johnson began to shift.

The gospel spread, and by the late 1990s, more companies saw the importance of reducing the impact of the business on the environment. Enormous momentum began to build behind what had come to be called corporate social responsibility. —M.R.T. and J.S.A.

collaborations like the one between TNC and Dow in order to ensure that they genuinely pursue positive results. If projects go awry, if transparency is lacking or if environmental organizations are naïve or make mistakes, they indeed need to be called out. This kind of criticism ultimately leads to progress: better strategies, savvier NGOs, more successful approaches to protect nature. In the broad ecosystem that makes up the environmental movement, there is a constructive role for a variety of organizational strategies.

For example, in 2009, Greenpeace published a report with the rather inflammatory title *Carbon Scam*. The report was critical of a forest carbon project in Bolivia that had been led by TNC with the support of General Motors and American Electric Power. TNC was proud of the environmental accomplishments of the deal—including the fact that it represented the first major effort to pay for carbon sequestration by protecting a forest. Greenpeace, however, raised tough questions about whether the project fulfilled its commitments to the local people who depended on the forest for their livelihoods. What resulted from Greenpeace's report, once everyone got past the initial mistrust, was constructive thinking about how to make such projects work even better in the future.

Criticism should not discourage attempts to try new partnerships or strategies.

This kind of dialogue between environmental organizations—even when it leads to tough criticism—is an essential part of the effort to scale up environmental progress. But it should not discourage attempts to try new partnerships or innovative strategies. Environmentalists should take full advantage of the opportunity that partnerships with forward thinking companies provide.

Imagine a future in which global corporations routinely neglect the importance of nature to their enterprise—in which they fail to see that their investments will be undermined if certain thresholds are crossed and ecosystems are so injured that degraded water, depleted soils, and extreme weather create a world that is hostile to business productivity. No one concerned with the natural world should allow that to happen. ■

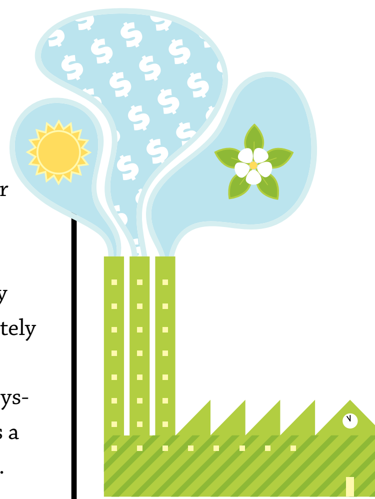


Photo by Dave Laridsen

NATURE CONSERVANCY HEAD MARK TERCEK AIMS TO TURN BUSINESS GREEN.

In a way, you're aiming to redefine how we see nature.

I'm arguing that people—environmentalists, businesspeople, everyone—shouldn't just love nature. It's more important to *value* nature, understanding that nature is the infrastructure that produces clean air to breathe, good food and fish to eat, clean water to drink, atmosphere that provides stable living conditions. Everybody is in favor of those things, but we've all taken them for granted for a very long time.

If you think about the best way to ensure they'll continue, investing in nature looks pretty darn attractive. If you're a CEO, the benefits are accrued by your business; if you're a citizen or government leader, the benefits are accrued by society across the board. And this is especially true in the developing world, where nature is not a luxury good. Vulnerable people are even more dependent on natural capital.

It behooves you to pay as close attention to the natural capital you depend on as you should to your man-made capital, the stuff that's on your balance sheet right now.

When you talk with executives about moving forward with green initiatives, what's the biggest sticking point why they don't?
To be honest, there aren't many sticking points anymore; just about everybody's business is getting caught up in the environmental challenges the world faces. In the universe I'm working in, most folks get it, and they just want to figure out what's the right strategy for them.

But from the outside, companies undertaking major green initiatives, such as Dow Chemical and Walmart, still seem like exceptions.
Well, some companies are ahead of others—they've invested more, and the CEO really gets it and is pushing hard. Walmart and Dow, thanks to great senior leadership and a pronounced commitment—along with some early activities that went well and built some momentum—are definitely out in front. If you work at those companies, it's obvious that this is a high priority there.

Beverage companies, too, have been ahead of the curve, because they know they depend on water, that there will be water issues in the future, and that investments in ecosystems that protect the water supply are good deals. *Nature's Fortune* talks about Coca-Cola and also about Colombian sugarcane growers and the municipal water company in Quito, the capital of Ecuador, who all concluded that the lowest-cost way to secure the clean water they need is investing in ecosystems.

Do executives tell you that they *would* take on initiatives but can't afford to right now?
There's some of that. These kinds of programs can be complicated; they take a lot of effort and engagement. So not everybody has placed the same emphasis on sustainability initiatives, especially if a company faces big business challenges in the near term.

What we're really trying to do is get CEOs and their senior-management teams to understand that this isn't just a nice thing to do or a worthy corporate-social-responsibility program—rather, it will enhance their business position; it will enhance shareholder value.

Your book argues that sustainability efforts can benefit companies directly, as with water and natural resources—it's more than a general societal good.
It's a business *necessity*—those businesses that aren't on the cutting edge and being smart about these issues are going to be at a competitive disadvantage. It behooves you to pay as close attention to the natural capital you depend on as you should to your man-made capital, the stuff that's on your balance sheet right now. Of course, companies take good care of the plant equipment that's on their books—that's just good business, right? They should think about natural capital in the same way.

Business leaders are good at stealing each other's good ideas and pursuing what will work, and if we can help them understand that doing the right thing environmentally, being a better steward of natural capital, will help their business, we'll really see movement in the right direction.

Plus, it will be a great shot in the arm for the environmental movement. Environmentalists don't always do ourselves favors; sometimes we come across as tree-hugging troublemakers. Now, there are occasions when we *should* make trouble, to be sure. You need tough critics; you need watchdogs; you need to put heat on companies. But there are all kinds of environmentalists, and sometimes executives seem surprised to find that organizations can be tough-minded but are willing to partner to make big things happen.

There's a lot of noise in our sector, a lot of interest in labeling companies good or bad. I don't have much time for that. I want to find companies interested in looking for new ways to go forward. The Nature Conservancy isn't a debating society—we're trying to get stuff done, now, before it's too late. It's a cop-out to stand on the sidelines and debate; it's trickier for an environmental organization to build alliances with controversial companies to try to make things happen, but it'd be irresponsible of us not to do that. We have to deal with reality.

Are you seeing an increasing sense of urgency?
Environmental emergencies and challenges have heightened everyone's efforts to be smart about all this. Sometimes there's a silver lining in bad news. It's a wake-up call. A storm like Hurricane Sandy gets people's attention, and issues of extreme weather and the sea level rising will not go away. New York purports to be the financial capital of the world, and the world is not going to be happy continuing to have its financial capital in a place that's vulnerable.

—MATTHEW BUDMAN

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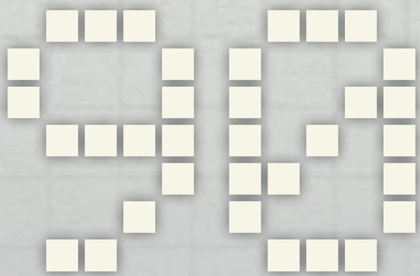
THE NEXT



DAYS

LOOKING BEYOND THE SHORT-TERM TYRANNY OF THE QUARTERLY EARNINGS REPORT.

BY JOHN BUCHANAN

EVERY CAUTIONARY TALE HAS ITS EMBLEMATIC MOMENT. IN THE CASE OF QUARTERLY EARNINGS GUIDANCE, IT WAS THIS: IN EARLY 2005, AFTER EBAY REPORTED THAT IT HAD MISSED ITS FOURTH-QUARTER 2004 CONSENSUS EARNINGS ESTIMATE BY JUST ONE CENT, EXECUTIVES AND SHAREHOLDERS WATCHED IN HORROR AS THE COMPANY'S SHARE PRICE PLUMMETED 22 PERCENT—$17 BILLION IN MARKET CAP LOST IN A SINGLE DAY.

True, missed estimates rarely result in investors inflicting such severe punishment. But the threat is always present, and regardless, no one wants to deliver uncomfortable news to the board, Wall Street, or Bloomberg. So no surprise that management does whatever it takes—within the law, if not reason or good judgment—to meet consensus estimates.

In order to accomplish that dubious and often difficult goal every ninety days, managers may deeply discount their products—thereby cannibalizing profit margins—or find other clever accounting tricks that, in effect, steal from the future to prop up the present. Sometimes managing expectations requires doing the opposite: For instance, within a few months of its (minor) setback, eBay regained momentum and saw revenues soar 37 percent in the third quarter of 2005—but this time management took pains to understate future expectations, and the company's roller-coaster stock ride smoothed out, to everyone's relief. Sure, everyone on the next analyst call understood that eBay was, just maybe, gaming the quarterly earnings system a little—but hey, the system is the system, right?

Except that it doesn't have to be. The majority of public companies strictly adhere to the practice, always looking ninety days ahead, but executives are increasingly grumbling and even balking. Many are openly asking to abolish—or at least seriously overhaul—the longstanding system, insisting that providing a quarterly report card does more harm than good.

Governance and Corporate Values Center, agrees that the net effect of quarterly guidance has been more negative than positive. "The real effect," he says, "has been to create fabricated benchmarks that alter the decision-making of those corporate managers who allow themselves to be driven by the process."

A more readily apparent consequence has been the enormous cost in terms of time, money, and resources that the current system extracts. "Companies spend a lot of time preparing for what they think analysts are going to say and how the market is going to react," says Andrew Edson, a New York-based investor-relations consultant. "That is time and money that could be better spent actually running the company and planning for the long term. I think every company out there would agree with that." Some CFOs spend as much as 20 percent of their time managing earnings reporting and performing for Wall Street analysts to make sure they make their consensus earnings estimates, says Tom Kerr, portfolio manager at Rocky Peak Small Cap Value Fund in Calabasas, Calif.

Some executives insist that quarterly report cards do more harm than good.

And, Orsagh says, the often-frenzied dancing sometimes leads to unhappy endings. "To me, the problem is that when you see a company whose numbers have been going up, up, up, quarter after quarter for years and years, that says there is going to be a reckoning some day in the future—and that it is going to be ugly. It means the companies are borrowing from the future, and you can't do that."

In extreme cases, of course, borrowing from the future gives way to outright invention—and blaring headlines. Enron, WorldCom, and HealthSouth were once darlings of Wall Street.

NO QUARTER

The widespread use of quarterly earnings guidance began in the mid-1990s, when Congress moved to protect companies from liability for statements made about projected performance. For enthusiastic and clever practitioners, the new promotional fad promised a trio of enticing benefits: higher stock valuations, lower share-price volatility, and improved liquidity.

Over the ensuing decade, the use of quarterly guidance became a virtual obsession. The result has been a myopic focus on short-term results, says Matt Orsagh, director of capital-markets policy at the CFA Institute. "Each earnings season, it's about who made their penny and who didn't," he says. "It's not about long-term vision for and performance of the company. And the culture of earnings guidance we've gotten into has just reinforced that myopia."

Jason Schloetzer, an assistant professor of accounting at Georgetown University's McDonough School of Business and a frequent contributor to The Conference Board's

"THE CURRENT SYSTEM MAKES NO SENSE"

Quarterly reports may be popular, but they're hardly universal. In a 2006 analysis, McKinsey & Co. found that of some four thousand companies with revenues greater than $500 million, about 1,600 had provided earnings guidance at least once between 1994 and 2004. And a number of high-profile companies—including Coca-Cola, Google, GE, Berkshire

> **Did something really just happen that makes that company 10 percent less valuable, or is there an overreaction going on here?**

Hathaway, Citigroup, Ford Motor, and Unilever—had publicly sworn off the practice.

It should have been no surprise to see many established companies following their own timelines. In its report, *The Misguided Practice of Earnings Guidance*, McKinsey looked across all sectors and examined two mature representative industries—consumer packaged goods and pharmaceuticals—and found no evidence to support the promised benefits that had propagated the enthusiasm for quarterly guidance in the first place.

Indeed, McKinsey said, reporting quarterly earnings delivered more risk than reward. "The difficulty of predicting earnings accurately, for example, can lead to the often painful result of missing quarterly forecasts," the report authors noted. "That, in turn, can be a powerful incentive for management to focus excessive attention on the short term; to sacrifice longer-term, value-creating investments in favor of short-term results, and, in some cases, to manage earnings inappropriately from quarter to quarter to create the illusion of stability."

A few months ago, McKinsey released a new report, *Avoiding the Consensus Earnings Trap*, that raised even more doubts about quarterly guidance. "For example," says McKinsey partner Tim Koller, co-author of the report, "companies that do it are not valued differently from companies that don't."

Nevertheless, McKinsey found, the lingering myth that quarterly guidance delivers benefits has perpetuated its practice—often in ways that conflict with a company's genuine best interests. "Executives often go to some lengths to meet or beat consensus estimates—even acting in ways that could damage the longer-term health of the business," the report said.

Even more damning, Orsagh says, is anecdotal evidence that as many as three-quarters of executives admit they

would, in effect, be willing to do things they knew were potentially detrimental to their employers' long-term interests in order to make their quarterly numbers.

As a result of such awkward self-realization and underlying reality, more and more senior executives have begun to question the practice. In the wake of the 2008 financial market meltdown—and further evidence of the things companies will do to satisfy Wall Street demands for results—enthusiasm for reporting every ninety days has diminished further.

"I think much of the decline in quarterly guidance given by companies since the financial crisis has been largely due to the awareness among those companies of their inability to accurately forecast quarterly performance," Schloetzer says. "And rather than providing a number that then becomes an external target that the company then misses—because of the volatility of their business or because of the general economic climate—more companies have just decided they prefer to go silent and not provide quarterly numbers."

Indeed, a startlingly high percentage of Fortune 500 CEOs and CFOs have increasingly concluded—based as much on common sense as research from McKinsey or CFA Institute—that the practice of quarterly guidance is more nuisance than salvation. Most informed observers agree that as many as 98 percent of top executives would admit privately, if not in public, that they would prefer to see quarterly guidance ended.

Koller and Orsagh agree that a vast majority of C-suite executives would personally like to see the present guidance system dismantled. "For example, we host a series of CFO roundtables," Koller says. "And that is often the strong consensus. So I think it is true that CFOs of big companies would be happier without the current system."

Kathleen Brush, a former public-company CEO who is now a management consultant, explains why: "It's because they have seen the lunacy that goes on behind the scenes when their companies are scrambling to meet their quarterly earnings targets. They are finally realizing that the current system makes no sense."

THE SYSTEM ENDURES

If a huge majority of executives now realizes that the system makes no sense—and can have serious consequences for their companies—how does it survive? Obviously, there is a stark conflict between what CEOs and CFOs think and are willing to say in private and the extent to which they are willing to take the lead in openly challenging the system.

One key reason is a selfish one: More often than not, top executives' comp packages are based on short-term results, with headline-generating quarterly numbers as a key metric. Understandably, many are anxious about risking a shift to a long-term focus that could be as likely to reduce their income as increase it, based on more legitimate analysis of bottom-line business results.

"That is a big piece of the difficulty in changing the system," says Atlanta-based corporate attorney Robert F. Dow, a partner at Arnall Golden Gregory. "There is an intertwining of incentives and compensation with short-term numbers, so if you're talking about change, the question becomes how to get away from that short-term focus."

Jason Henham, managing director at Melbourne, Australia-based Slate Consulting, agrees that the conflict between a deeply understood underlying reality and superficial risk to their comp packages is a powerful reason why most CEOs and CFOs have kept their opinions about quarterly guidance to themselves, at least so far. Henham believes the potential risk is enough for executives to shrug and go along: "That is one reason why I don't think there is really much that can be done to change the current system."

Perhaps a more important reason why change will be difficult to achieve: external pressure. "For many CEOs and CFOs," Koller says, "the current system is still the path of least resistance. Executives are exposed to a lot of inputs, from analysts, journalists, investors, and bankers. And they get a lot of mixed messages. So even though a lot of very good executives might think quarterly earnings or guidance is a distraction for management, the problem is that they are constantly bombarded with questions about the quarter. And participating in the current system gives them a shared, widespread way of dealing with those questions and providing information. It's a way of dealing with all the noise out there. And unfortunately, it's usually short-term investors who tend to be louder." The financial press, he notes, amplifies the volume.

Dow agrees that the financial media plays a role in

perpetuating the current system. "What you see, typically, is that a company comes out with a bad quarter, the press jumps on it, and the stock goes down 10 percent," he says. "And the question I always ask is, 'Did something really just happen that makes that company 10 percent less valuable, or is there an overreaction going on here?' At the end of the day, the job of journalists is to sell headlines and stories. And saying that the world is collapsing on some big company probably sells more papers than more nuanced reporting on a very complicated issue."

John S. Oxford, director of external affairs at financial-services firm Renasant Corp. in Tupelo, Miss., shares Dow's view of the press as a co-conspirator in propping up a flawed system. "Editors and reporters like the fast-paced nature of the current system, and it gives them something to write about every quarter," he says. "They like hot stories and controversy. From their point of view, those are good things, not bad things."

Investment firms may not appreciate volatility as much as do reporters, but they're equally dependent on new quarterly reports. "People also have to understand that the current system is driven by the 'sell side' of the market—Wall Street—and that's who is putting out all the numbers and perpetuating the quarterly guidance system, because it is very lucrative for them," Tom Kerr says. As an example, he cites the massive commissions generated by the buy-or-sell recommendations made as part of the larger brokerage system and the machinations of its quarterly earnings reporting. "So the guilty party in all this is really the brokerage firms that write the research reports," he says. "And I don't know that can be changed, because there will still be the element of relationships with Wall Street for things like raising capital. And companies still need to depend on Wall Street for things like that and mergers and acquisitions. So I think a lot of them would be reluctant to do anything that could damage or even sever those relations."

TAKING THE LONG VIEW

With brokerage firms, the financial press, and executives' own compensation allied to preserve the short-term view, who might drive a change? Institutional investors, perhaps. Michael McCauley, senior officer of investment programs and governance for Florida's State Board of Administration, which manages $160 billion in retirement, local government, and hurricane catastrophe funds, cites a focus on long-term strategy and metrics as a foundational value for his organization. "We've always taken the approach that compensation needs to be one of the issues in corporate governance that really does take a long-term view," he says. "You should at least evaluate management performance over a business cycle—*at least*—if not over an even longer term."

And some organizations have taken the initiative in fostering a broader discussion of the issue. Based on its findings that the current system poses long-term risks and delivers no real benefits, McKinsey has been proposing significant change since its 2006 report. "Instead of providing frequent earnings guidance," the authors wrote, "companies can help the market to understand their business, the underlying value drivers, the expected business climate, and their strategy—in short, to understand their long-term health as well as their short-term performance. Analysts and investors would then be better equipped to forecast the financial performance of these companies and to reach conclusions about their value."

As an example of the efficacy of its counsel, McKinsey cited Coca-Cola, which abandoned quarterly guidance in 2002. Its executives, the authors wrote, "had concluded that providing short-term results actually *prevented* management from focusing meaningfully on strategic initiatives to build its business and succeed over the long term." Other companies reached the same conclusion and set their own reporting schedules.

Kathleen Brush stresses that, as part of their fundamental fiduciary responsibilities, CEOs and CFOs are supposed to do everything in their power to maximize shareholder value. "And providing quarterly guidance, under the current system, smacks that commitment in the face."

HOW VISIONARY IS THE BOARD?

Another factor could move change forward: more engagement from boards. Consider CFA Institute's recent report *Visionary Board Leadership: Stewardship for the Long Term*, in which author Matthew Orsagh makes a clear, powerful declaration:

A visionary board, focused on the company's best interests, "does not engage—or allow management to engage—in the quarterly earnings guidance game." Instead, he wrote, a board should communicate "for the long term in order to attract long-term shareowners."

Orsagh sees movement in that direction. "More and more boards are reading reports like ours and having conversations about the fact that maybe they don't want to support quarterly guidance anymore," he says. "And I think we're seeing more and more parties around the table recognizing that it is not in their best interest to participate in quarterly guidance. What it's going to take to get that done is leadership from boards. They have to step up and say, 'The current system is not good for our company, and it's not good for our shareholders.'"

But will they step up? McKinsey's Tim Koller isn't sure. He agrees that directors are increasingly aware of the debate and discussing the issue. But changing the system means rethinking boards' oversight function. "In order to fix the problem, boards have to learn how to evaluate the performance of their companies differently than they do right now," he says. "Often now, boards are also looking at the quarterly numbers. And if you sit on the board of a large company with ten or fifteen business units, you need to put a lot more time in to figure out what's going on if you're not going to manage simply by what the quarterly earnings numbers are." No wonder directors aren't unanimously overjoyed at the prospect.

Koller credits many boards and individual directors with already taking the long view. "But in general, board members are very busy people, and they have a very limited amount of time to spend on any particular thing," he says. "So there isn't necessarily a lot of incentive for them to look for ways to do things differently. In addition, that can create a lot of awkwardness in the boardroom, because you're asking a lot more detailed questions of the CEO and CFO. So as a board member, you have to ask yourself, 'Do I really want to be asking those kinds of hard questions?' And that's one reason why the issue of governance is such a hard challenge. It involves multiple dimensions. It's not a simple thing to do."

If there is any real prospect for major change, perhaps the only way it can be achieved is if a broad coalition of entities—The Conference Board, BRI, CFA Institute, McKinsey, and a vocal group of CEOs and CFOs who have ended quarterly guidance and seen their companies and paychecks prosper—goes public and starts by holding a press conference calling for a more long-term approach that will benefit public companies and their shareholders. "That could theoretically be a tipping point," Kerr says.

PRACTICAL SOLUTIONS

Since not even the fiercest advocates for abolishing the current system of quarterly guidance believe strongly that goal can be met in the foreseeable future, McKinsey's January 2013 report "Avoiding the Consensus-Earnings Trap" offers succinct practical advice on how to function most effectively within the present framework.

- At the beginning of the year, managers shouldn't shape their earnings targets or budgets just to meet consensus estimates. We've seen companies do that, typically by reducing spending on product development, sales and marketing, or other costs associated with long-term growth. In doing so, they essentially are handicapping long-term performance for the appearance of short-term strength. Managers know much more than investors about what is happening inside their company and in their markets and about what the long-term growth opportunities are.
- As the year progresses, managers should likewise avoid costly, shortsighted actions to meet the consensus.... [W]e've seen companies offering customers end-of-year discounts to boost their current-year sales with next year's orders—or even cutting the travel budgets of the sales force, effectively borrowing from future sales to meet this year's consensus estimates.
- At year-end, never resort to using cosmetic quick wins to meet estimates, such as creative accounting with accruals. Investors recognize these for what they are. Instead, focus on the company's underlying fundamentals and on communicating those to investors. That's what is most important for your share price.

John Oxford supports the notion of a broad public debate about quarterly guidance and believes that a broad coalition could indeed launch a serious discussion. "But like any other issue, you have to offer a solution that goes along with the complaint," he says. "So in order for anything to happen, I think you'd have to present two or three alternatives, then go and discuss them with the NYSE, NASDAQ, and the SEC and see if you could build a consensus. But that would take time."

For his part, Dow is not sure such a public initiative would truly get the ball rolling. "But it would certainly be a material factor in moving the debate at a faster pace," he says. "And that is the important thing." ■

"JUST SAY

[BY VADIM LIBERMAN]

Illustration by Michael Morgenstern

■ VADIM LIBERMAN is senior editor of *TCB Review*. His ethics are beyond reproach.

NO"

IF ONLY FIGHTING BRIBERY WERE THAT SIMPLE.

AN ELECTRICITY COMPANY DEMANDS A "SPECIAL CHARGE" FOR CONNECTION TO THE GRID. CUSTOMS DELAYS GOODS, PENDING AN "EXPEDITION TARIFF." AN AGENT OFFERS PROPRIETARY BID-EVALUATION CRITERIA FOR A "CONSULTING FEE." A POLICE OFFICER IMPOSES A "TAX" TO CROSS THE BORDER. A "CONSULTANT" VOLUNTEERS TO HELP REINSTATE MYSTERIOUSLY STALLED CLIENT PAYMENTS.

No argument: Bribery—that is, offering, promising, giving, authorizing, or accepting any undue cash or other benefits in connection to obtaining work or other improper advantages—belongs nowhere in business. Yet it's everywhere. The incessant threat—*the opportunity*—of bribery (or extortion, depending on who's asking) means that you must be ready when, not if, faced with shadowy businesspeople or "businesspeople."

"The allure of bribery is built into our DNA, and many people under stress are tempted to go for shortcuts. If you can outsmart the competition, it's almost irresistible, especially as the rule of law lags behind," explains Georg Kell, executive director of the U.N. Global Compact, which aligns the work of businesses with the United Nations. In today's hyper-caffeinated marketplace, with fewer new latitudes to conquer and little latitude for error, you can empathize with anyone—that's everyone—scrambling not to fail.

Sure, some employees look to pack their own pockets, but most bribe for the perceived good of the organization. "There's often a belief, especially by foreign nationals working for U.S. companies, that if you're advancing corporate interests using company money, you're being a good employee," says Mike Koehler, assistant professor at Southern Illinois University School of Law and author of the FCPA Professor blog. Indeed, 15 percent of surveyed CFOs worldwide admit they're willing to pay cash to win or retain business, according to a recent Ernst & Young study.

"People convince themselves that bribery is appropriate to solve short-term business problems," explains Toby Bishop, director of the Deloitte Forensic Center. "Unfortunately, white-collar crimes rationalized in this fashion lead to penalties far worse than failing to make a sale."

Look, you know bribery is wrong. Just say no to it. But if a first lady couldn't persuade children to keep off the grass with such jejune advice, stringing together words in a corporate handbook surely won't convince businesspeople, especially when they believe they're acting for the good of the company and competing on

uneven ground, against competition that doesn't follow the same rules.

Ultimately, you *want* to do the right thing, but is it right to jeopardize millions of dollars and thousands of jobs so you can hold your head up high? Or too high in the clouds? "It's naïve to say, 'Just don't bribe,'" Koehler says. "We're talking about conduct throughout the entirety of human history." For just as long, people have wrestled with ending the never-ending dirty business of bribery. In the meantime, it's worth pondering your organization's role in the cleanup.

FORGET THE SUITCASE

About 69 percent of compliance officers say their companies are highly or moderately exposed to bribery, according to risk-management consultancy Kroll. (The rest are probably naïve.) Furthermore, the World Bank estimates that last year $1 trillion were paid in bribes, and observers say that corruption adds up to 10 percent of the total cost of doing business globally. Bribery's tentacles poison every industry, especially public works and construction, utilities, real estate, oil and gas, and mining. Likewise, bribery particularly taints procurement, bidding, sales, establishing presence in new markets, and licensing.

Nowadays, you can't leaf through an issue of *Bloomberg Businessweek* without encountering some company in some country in some scandal—most recently the Las Vegas Sands Corp., which in March acknowledged committing "likely violations" of the Foreign Corrupt Practices Act. *The New York Times*' massive "Wal-Mart Abroad" series last year resulted in investigations by the SEC, Justice Department, and the Mexican government. Technology, social media, globalization, highly interested interest groups, and a vigilant media have placed bribery under a microscope—and a telescope. "What in the past might have been a minor embarrassment in a remote subsidiary now becomes highly visible," says Deloitte's Toby Bishop.

With more big brothers and big everyone scrutinizing every dollar changing hands, it's become harder to camouflage behaviors—yet never before have there existed so many ways to do so. Suitcases stuffed with cash are for amateurs. "Today, bribery is much less brazen than a decade ago," suggests Alexandra Wrage, president of TRACE International, an anti-bribery nonprofit. "In the past, I'd be in fairly opaque countries where people would blatantly negotiate bribes in restaurants. Now, they're more covert. Also, when you don't know if the other person is open to the idea of bribery, you have to dance around the issue more and use gentle language that you can back away from."

Modern schemes use offshore accounts, shell companies, trumped-up subcontractors, inflated contract terms, and odd commission structures. In particular, the outsourcing of bribery to third parties—advisers, consultants, subcontractors, business partners (feel free to add quotes around each of these)—makes bribery harder to detect and easier to accomplish. Indeed, 52 percent of executives say that the use of intermediaries creates a significant risk for corruption, according to a Deloitte study. Furthermore, 43 percent say managing such relationships is a significant challenge for them.

"It's very easy now to send large amounts of money to the other side of the world using intermediaries so that tracing this becomes very difficult," explains Patrick Moulette, head of the anti-corruption division at the Organization for Economic Cooperation and Development. For example, "during a bidding process, a government official with corrupt intent may express an interest in your company as a target for being a supplier of a bribe and suggest that you retain a specific consultant as a business partner. That can be code for, 'You hire that consultant so that some of that fee is funneled back to me and you will win the contract,'" says Glenn Ware, a principal at PricewaterhouseCoopers. Similarly, paying lobbyists to arrange meetings with public figures or hiring agents to liaise with local authorities can disguise underlying corruption and distance bribers from final recipients.

As if bribery weren't enough of a gamble, in China, one real-estate developer organized high-stakes poker games between government officials and professional players he hired to represent him. He allowed officials to play on credit and instructed the poker players to lose as a means of transferring his money to the officials.

It's a positive sign that bribers must now resort to creative card tricks—more aggressive legal enforcement has left little room to hide under the table. (See "The Laws of the Lands.") But let's face it: Prominent scandals teach some bystanders not to reject bribery but to do it more surreptitiously. The offense lies not in the bribe but being stupid (or unlucky) enough to get caught.

The reality may even be that more people get away with bribery than don't. With such odds, isn't bribery just good business?

THE BUSINESS CASE

To some, bribery isn't the problem. Its illegality is, especially in the developing world, where no one—particularly a foreign corporation—can conduct business without becoming entangled in senseless red tape. Paying bribes merely slices through local inefficiencies. "The Wal-Mart example is a perfect illustration of this dynamic," writes Jeffrey Mirron on CNN.com. A senior lecturer and director of undergraduate studies at Harvard University, Mirron points out, "Mexico has a messy permitting process for allowing companies like Wal-Mart to open new stores.

This permitting barrier is bad for Mexicans because it reduces the number of new Wal-Marts or slows their opening. Mexicans therefore pay higher prices for the wide array of inexpensive goods sold by Wal-Mart." Until lawmakers reform regulations, unlikely anytime soon, Mirron argues that "it is better to allow companies from the United States and other rich companies to pay the bribes that diminish the negative impact of excessive government."

In much of the world, there isn't enough Purell to disinfect the many palms that demand to be greased, but if you don't pay, someone else will. Indeed, 27 percent of executives worldwide claim that they've lost business because a competitor paid a bribe, according to Transparency International, a nonprofit devoted to fighting

In much of the world, there isn't enough Purell to disinfect the many palms that demand to be greased.

corruption. "It's possible that we've lost business because other companies have bribed," concurs Wendy Hallgren, vice president of corporate compliance at global engineering construction company Fluor. "We've seen competitors get jobs for which we know we had the best solution and best pricing, but we just can't know for sure."

More often, it's all too obvious that paying up pays. When professors Raghavendra Rau of Cambridge University and Yan Leung Cheung and Aris Stouraitis of the Hong Kong Baptist University examined 166 high-profile bribery cases since 1971, they calculated that companies gained an average of $7 for every dollar they handed over. Hence, you don't need an accountant to crunch the cost-benefit numbers when paying a government official a special fee for technical approval

The economically unscrupulous companies that bribe their way into markets don't have to worry about quality since they can bribe around quality controls, which hurts everyone.

of equipment, or giving a client a last-minute closure charge to complete a lucrative deal, or bribing a project owner's representative to win a contract, or paying an engineer to make bidding-evaluation terms more favorable.

And hey, it's not as if you're bribing because you worry your company isn't otherwise up to the job. It's because you believe it *is*. Without your wink and nudge to obtain the work, some shoddy operation more willing to slip an extra somethin'-somethin'—perhaps so that officials will overlook its inferior goods or services—will win out. You see, bribing doesn't just benefit your own company—it aids the whole community.

So the thinking can go.

It can also go another, more rational, way. "I'm not silly enough to argue there's no short-term benefit to paying a bribe," says TRACE's Alexandra Wrage, "but as soon as you mark yourself as willing to pay bribes, you are buying a queue of government officials at your door the next day who will create bigger obstacles and more ways to get money from you. If you say no the first time, there will be short-term pain, but when people realize you are not a bribe-paying company, they will stop asking, and guess what? Your stuff will get through customs just fine while the bribe-paying guy next to you is pulling out rumpled $20 bills. We hear this from companies all the time."

"Bribery becomes a never-ending cycle and creates lots of uncertainty, which no company likes," the OECD's Patrick Moulette points out. That is, without legitimate contracts and records, it's impossible to seek recourse—hardly a model risk-management strategy.

It's not that engaging in bribery means the terrorists win. It's that no one wins, including you. Economists Daniel Kaufmann and Shang-Jin Wei have shown that firms that pay bribes are likelier to waste more resources negotiating with bureaucrats and face higher overall costs in the long term.

Another reason why agreeing to pay bribes hurts: Governments are cracking down as more blue-chip companies refuse to do business in countries where corruption is rampant. Too many bids won by the wrong firms leaves visible evidence. "The economically unscrupulous companies that bribe their way into markets don't have to worry about quality since they can bribe around quality controls, which hurts everyone—including the citizens whose tax dollars are being used to buy these poor-quality products and services," says PWC's Glenn Ware. "As a glaring example of this, in highly corrupt countries, you can literally drive around roads full of holes because the companies with the highest integrity can't or won't participate in the bidding process because of corruption. You have the lowest-quality products and services entering the very markets where the need for quality is very high."

With governments taking a firmer stand, "we hear more and more that companies that engage in corruption get some jobs, but they won't necessarily get the best jobs," says Elaine Dezenski, head of the World Economic Forum's Partnering Against Corruption Initiative. "In other words, we are indeed seeing a shift, especially with projects that involve strategic infrastructure."

POLICY OF TRUTH

Convincing your people that it doesn't pay to pay begins with an anti-corruption policy—you know, the one that only about half of companies actually have, according to a Transparency International survey. Then again, why bother? Only 29 percent of executives say that they're very confident that their organization's program would prevent or detect corrupt activities, according to Deloitte.

BEYOND CULTURE

BY FRANK VOGL

There are many mid-level officials in many developing countries who seek to obtain bribes for the services that they have the power to grant. Their actions are wrong, but their reasons for seeking special favors are more complex than the greed and arrogance of their most senior official superiors.

I remember a mid-level mining ministry official in Tanzania who noted that in our company's mining agreement with the government we had agreed to set aside funds for the training of Tanzanian geologists. He suggested that he would look kindly toward our firm if some of those education funds might be used to send his oldest son to school and then to university in Australia, Canada, or the United Kingdom. He was asking us to bend the rules. He was seeking to abuse his office. He explained that his income was modest and there was no way in which he could secure a decent education for his son. He believed that if his son had a chance of an education overseas, then he would be able to make real advances in life. He was sincere. The amounts he sought were not great. But his request was wrong and we said no.

But his motivation was not power and personal greed, nor was he driven to make his pitch by cultural factors. He wanted to help his son have brighter opportunities in life. The solution was not to allow him to extort bribes, but rather to find ways whereby officials in his position and many others can earn sufficient sums that they can save and use those savings to support good educations for their children. Singapore has for many years understood far better than almost any other country that decent salaries for government officials are a vital safeguard against corruption.

There are millions of people in many developing countries who do not seek bribes because it is in their culture, but because they feel driven to supplement their paltry incomes in order to survive. They will not change their ways through cultural training, but rather by the provision to them of what they deserve—decent wages.

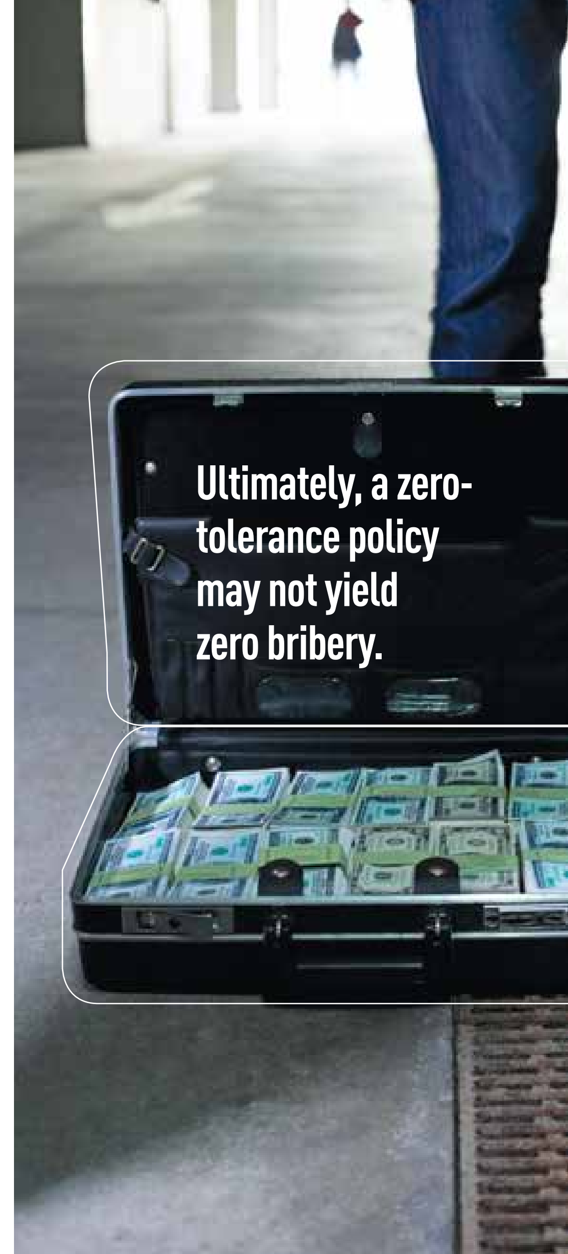
■ Frank Vogl is co-founder of Transparency International and the Partnership for Transparency Fund. Adapted from *Waging War on Corruption: Inside the Movement Fighting the Abuse of Power* (Rowman & Littlefield). ©2012

"It's pointless to create a policy so dense with legalese that even the people who wrote it don't want to read it," explains TRACE's Wrage. Besides, you know what happens to most policies. You fling them into a filing cabinet—if not the trash—having perused them once. Maybe. And yes, it's great to post mandates online, but does anyone really look at your intranet?

If these clichés are true (they are), so is the one about tone at the top: Anti-bribery efforts are only as (un) important and, therefore, (in)effective, as top leadership says they are. That means charging a C-level compliance officer with more than just compliance. "Especially in the United States, where everything is liability-oriented and about clicking boxes, your legal people aren't necessarily the ones to motivate your workers," explains the U.N.'s Georg Kell. "You need a senior manager who sees compliance as a necessary complement to developing an anti-corruption program that focuses more on awareness creation, empowerment, and practical support for people working in complicated environments. This is a cultural-management, not a compliance, issue."

If your main concern is legality, your myopia may also ignore other bribery issues, namely between private companies. "You don't want a policy that says you shouldn't do things only if a government official is involved," Wrage instructs. "It's a strange and confusing message. Besides, in places like China, it can take you more time and you can spend a fortune on outside counsel figuring out whether the person you're dealing with is a government official or some guy who works at a research institute. It's more pragmatic and ultimately less expensive for companies to apply anti-bribery rules across the board."

Finally, repeat, repeat, repeat, repeat, like a broken record, that you won't punish employees who lose business because they refuse to pay bribes. Additionally, critics caution creating systems that incentivize paying them to begin with. For example, Wendy Hallgren explains that because of the company's commission-based sales structure, Fluor's salespeople feel less pressure to bribe. Also, by crafting and promoting programs effectively, you help employees by allowing them to fall back on corporate policy when confronted with bribery opportunities. As she points out, "Being known as a company that says no to this stuff makes work easier for us because we get asked less often, and when we do, our employees can easily say no. It looks less like an individual decision than a corporate one."



Ultimately, a zero-tolerance policy may not yield zero bribery.

POLICING TRANSPARENCY

About 80 percent of executives say their company conducts internal audits to identify foreign corrupt activity, according to Deloitte research, but only 32 percent say their organizations do so annually. All of which may be irrelevant—if you understand your company's bribery-detection process, it probably wouldn't be hard to circumvent it. Therefore, critics recommend hiring independent monitors. "The greater the perceived likelihood of detection, the more that serves as an effective deterrent," explains Deloitte's Toby Bishop.

Of course, no matter how many preventative roadblocks to bribery you erect, some will seek shortcuts and detours. The response should be straightforward, say numerous consultants: Fire anyone who knowingly violates your anti-corruption policy. "Nothing kills a program faster than saying you will terminate someone who pays a bribe, then looking away because someone has exceptionally high numbers," Wrage says.

Ultimately, a zero-tolerance policy may not yield zero bribery, but even if the goal is to eradicate corruption, you define success by how much you prevent or reduce it. "In some instances, disciplining a few people will generate the necessary compliance and deter people from wrong doing," says Ware.

(Obviously, you should establish health and safety exceptions. For instance, an uncommon but not unheard-of scenario in some regions involves a government official informing you that you lack necessary proof of immunization, and unless you pay a fine, you must immediately bare your arm for a shot from some mysterious-looking syringe. Good reason to pay up, as long as you report it to your company afterward.)

THE LAWS OF THE LANDS

Most multinationals would never bribe an American official because they know Uncle Sam doesn't mess around, but a Cambodian, a Kenyan, a Russian government worker? Now we're talking.

Actually, testifying. Increasingly, governments around the world have been chasing corporations, slapping fines, waving orange jumpsuits, and placing corporations before judges.

Any company listed on a U.S. exchange or with major operations in the United States is subject to the Foreign Corrupt Practices Act. Enacted in 1977, the law criminalizes attempted and actual bribery of foreign officials—with cash, gifts, charitable contributions, or other attempts. (It's illegal to use intermediaries to do likewise.) And it has gained strength in recent years. In 2004, only five companies were under FCPA investigation. Five years later, the number spiked to forty. As of last December, an estimated eighty-eight corporations were on the list, including 3M, Avon, Barclays, GlaxoSmithKline, Goodyear, Hewlett-Packard, Kraft, Motorola, Oracle, Raytheon, Sony, Time Warner, Viacom, and, of course, Wal-Mart.

The point isn't to point a finger; an investigation doesn't equal guilt. Rather, this truncated roll call of some of the world's best-known enterprises underscores the government's message: *This can happen to you.*

If it does, you may discover millions of reasons to be sorry. After German engineering giant Siemens was caught shelling out $1.4 billion in bribes over the course of a decade, the company agreed in 2008 to pay $1.6 billion to American and European authorities to settle charges. While the Siemens judgment represents the most a single corporation has ever had to pay in corruption fines, last year, Eli Lilly, Tyco, Pfizer (and Wyeth), and Allianz were just a few of the companies that agreed to pay between $12.3 million and $45 million to settle alleged FCPA infractions. Also, between 2010 and 2012, the fine/payment/settlement amount for violating the FCPA totaled $2.7 billion for companies and, notably, individuals. Years ago, the government pursued only corporations; nowadays, executives are not exempt. "We may not have yet won the battle against bribery," explains Patrick Moulette, head of the anti-corruption division at the Organization for Economic Cooperation and Development, "but the lives of bribers are getting more difficult."

Even stricter, the U.K. Bribery Act of 2010, unlike the FCPA, extends to cases beyond those involving public officials to include commercial bribery—that is, private firms bribing each other. It also goes further than the FCPA by making it unlawful not just to offer or give a bribe but to accept one. And while the FCPA says that there must be corrupt intent, the U.K. act does not.

Over time, observers predict that the FCPA and other transnational anti-corruption laws will mimic the U.K. law. Meanwhile, most nations have local anti-bribery regulations in place, meaning that even if you're not violating the FCPA—say, by paying an Indonesian clerk to speed your goods through customs—you almost certainly are breaking local regulations.

"There's no shortage of laws impeding bribery," explains Toby Bishop, director of the Deloitte Forensic Center. "The enforcement capability is there"—even if the will is not. Different countries administer laws to varying degrees, which is exactly how some local businesses would prefer things to remain. "If you're a company from a non-enforcing jurisdiction, then regulation by the United States is an asset to you in your market," explains Glenn Ware, who leads PricewaterhouseCoopers' anti-corruption and corporate intelligence practice. "Oddly, in these instances, you *want* robust legislation and enforcement activity by *other* countries because as a local company, you won't be subject to their anti-bribery laws and you will gain a competitive advantage against those that are."

Perversely, poor enforcement can also discourage bribery. Estimates indicate that 30 to 50 percent of multinationals refuse to invest in what they deem corrupt nations. "When we were chasing a big project years ago in Nigeria, we eventually decided not to pursue it anymore because we couldn't see the ability to do business within that country's culture," recalls Wendy Hallgren, VP of corporate compliance at engineering construction company Fluor.

Nigeria, it turns out, ranks 139 out of 174 on Transparency International's list of countries based on perceived levels of public-sector corruption, well ahead of, at the bottom, Somalia, North Korea, Afghanistan, Sudan, and Myanmar. At the other end of the spectrum: Denmark, Finland, New Zealand, Sweden, and Singapore. (The United Kingdom and United States, incidentally, rank 17 and 18, respectively.) —V.L.

Finally, in addition to policing your own people, if an intermediary is related to a government official, insists on cash payments, has no business address, coincidentally volunteers his services the moment your firm encounters delays, comes recommended by the party with whom you're negotiating, or wishes to be paid large amounts upfront, then you should do what 44 percent of executives, according to Ernst & Young research, say their companies did *not* do when pursuing deals in rapid-growth markets—run a background check. When it comes to middlemen, government watchdogs reject claims of plausible deniability, as Titan Corp. discovered in 2005. The telecommunications company surrendered $28.5 million in fines for paying $2 million to an agent with close ties to the president of the West African nation Benin. Titan admitted that it hadn't conducted substantial research on the agent, who funneled the money into the president's re-election campaign.

Just as you'd look into records related to your middlemen, you can similarly screen your supply chain, delving into media mentions, legal cases, and financial background. Multinationals that monitor their suppliers have opportunities to set standards, explains the WEF's Elaine Dezenski. It's a way for ethical businesses to wield influence through educating, training, and compliance. Hallgren points out that Fluor worked with thousands of contractors and suppliers last year, adding, "We have supplier-expectation guidelines. If they don't comply with them, we have the right of termination."

"We're not going to solve this problem only by having companies adopt better compliance programs," suggests the WEF's Elaine Dezenski, who champions collective action. "Business-government dialogue is very important, as are industries coming together to change the playing field so they aren't standing alone as a voice against inappropriate behavior." By engaging with governments and various NGOs, as well as forming integrity pacts with other businesses, your company can lubricate the wheels of business to churn efficiently without using illicit grease. Furthermore, "collective action creates a clear pattern for your company that ensures you're more likely to do business with other people of integrity who won't cut corners," adds Claudia Dumas, president and CEO of the anti-corruption nonprofit Transparency International - USA.

Unfortunately, "too many CEOs are too focused internally to think outside their own businesses about how to collectively solve the corruption dilemma," Georg Kell adds. "They haven't swallowed the idea that as large companies, you have a public-good responsibility, or at least an opportunity, to work on the problem."

But as more organizations get jolted awake by surging government prosecutions or slowly open their eyes to the myth of bribery's business case, there's hope for progress. Once upon a time, after all, it was unthinkable—or you were labeled crazy to think it—to do business without slavery. It's surprising, or not, how many of the same explanations—all permutations of the impossibility of conducting business without bribery—seem lifted from almost two centuries ago. Eventually, today's poor justifications will likewise end up in history's dustbin. Until then, companies have not just a legal or moral but an economic obligation to keep themselves clean. ■

> “It all adds up and creates a slippery slope of decay.

IS A BRIBE ALWAYS A BRIBE?

“Facilitation payment.” That doesn’t sound bad, right?

Few issues confound, frustrate, discomfort, and divide anti-bribery proponents like facilitation payments. About 47 percent of corporations prohibit them, according to a Deloitte study; others take a more we-don’t-like-them-but approach. They’re the most common form of, um, let’s just say it—bribes. So why do researchers and policymakers frequently overlook—even accept—them?

The answer lies in what a facilitation payment is: a small amount paid to expedite or secure a routine government action performed during the normal course of business, including obtaining permits, licenses, and other documents; processing papers, visas, and work orders; providing police protection, mail services, and utilities; and scheduling inspections, cargo handling, and similar activities. Paying a government worker to move your permit paperwork to the top of the pile is a facilitation payment; paying the employee an illegal sum for the permit itself is a capital-B transgression.

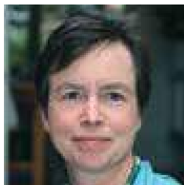
“Paying facilitation payments is a step in the wrong direction,” says Georg Kell, executive director of the U.N. Global Compact, a partnership between the United Nations and corporations. “Once you go along with small payments for a visa or clearing goods, you basically support a corrupt culture.” Yes, but it’s that culture that makes such payments impractical to avoid, many companies insist. If a top executive needs a visa now, or your goods won’t make their delivery targets because of a customs backlog, or a multimillion-dollar construction project hinges on an inspection scheduled weeks from now, what do you do?

You don’t pay. As unfeasible as facilitation payments may be to avoid, it may be more practical for companies to avoid them altogether. For starters, the Foreign Corrupt Practices Act stipulates that you record such payments, except “you will never find an employee anywhere in the world who can bring himself to record in the books a facilitating payment for what it is because it’s likely a violation of local law and general discomfort with the idea,” says Alexandra Wrage, president of TRACE International, an anti-bribery nonprofit. Also, permitting facilitation payments creates a confusing double standard. Adds Wrage, “You cannot easily explain to employees that big bribes are bad and will result in termination from the company, but facilitation payments, even though they may be tens of thousands of payments over a year, are all right.”

Meanwhile, what’s a “small” payment, a “routine” government action, and a government “official”? If the size or timing of the payment seems inconsistent with the service or if the lowly official, even if unbeknownst to you, turns out to be a major decision-maker in government, you’ll have a hard time defending yourself. Take Con-way Inc. In 2008, the global freight company suffered a $300,000 fine for bribing Philippines customs workers hundreds of small amounts totaling $244,000. Turns out that what some workers allegedly believed were facilitation payments were actually used to persuade officials to overlook violations and reduce or ignore legitimate fines.

“Because these are small amounts, people go through a fiction in their heads that it’s not harmful,” says Glenn Ware, a principal at PricewaterhouseCoopers. “But it all adds up and creates a slippery slope of decay.”

—V.L.



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FACE-TO-FACE FALLACIES

Why insisting that workers come to the office may not increase collaboration.

THE CFO OF GOOGLE, A COMPANY CENTRAL TO THE "ANYTIME ANYWHERE" WORK REVOLUTION, CAUSED A STIR RECENTLY BY SAYING THAT HIS ORGANIZATION DISCOURAGED EMPLOYEES FROM WORKING REMOTELY BECAUSE THE OFFICE IS WHERE IDEAS FLOURISH. Patrick Pichette's view, reported by *The Sydney Morning Herald* during a visit to Australia, where the government is encouraging more people to telework, was that only by being in the office can people experience the "magical moments" by which companies, employees, and communities develop.

Shortly afterward came news that Yahoo! CEO and former Google executive Marissa Mayer had ordered remote-working employees to get back to the office. The badly communicated company memo, leaked by employees, states that "[T]o become the absolute best place to work, communication and collaboration will be important, so we need to be working side-by-side. That is why it is critical that we are all present in our offices."

These are retrograde attitudes from Internet giants, all the more ironic and bizarre because they're the same companies that have given us the tools—email, chat, file storage, document sharing, discussion forums—to collaborate with others wherever in the world we happen to be.

There is a paradox here. On the one hand, Google likes to have its people close by. A visit to any "GooglePlex," with its quirky décor, free meals, deck chairs, and pool tables, underlines how keen the company is on physical presence and face-to-face collaboration. On the other, it gives its brainy engineers the option to take 20 percent of their time out of their main jobs to develop innovative services, thereby acknowledging that creativity requires freedom to flourish.

People often get their best ideas not during scheduled brainstorming sessions but in the shower or taking exercise or during any given moments that free their minds of the pressures of daily business decisions. Matt Brittin, Google's VP for Northern and Central Europe, once said he gets his best ideas cycling to work through the park with only the deer for company.

So I'm surprised that senior figures at Google and Yahoo! apparently hold such conventional views about working in the office versus elsewhere. They seem to have fallen into the trap that catches many managers in more traditional enterprises that working in the office and working from home are two absolute, opposing states, rather than two of a growing range of options about how and where people work.

Pichette is right to focus on how to get people to collaborate effectively in the fast-changing digital world. He is also right that people can become isolated if they work from home—although the risk is greatest if they do it all the time and have no technological substitute for workplace buzz, such as videoconferencing or instant messaging. But he and Mayer are wrong to promote presence in the office as the single formula for successful collaboration. This enforces a one-size-fits-all style of management that assumes everyone is the same and responds to stimuli similarly—and it does so just as technology is opening up the prospect of an infinite range of individually tailored work styles.

There is now a pile of research evidence that people are more productive when they work remotely. That's hardly surprising given the distractions of office life and back-to-back meetings. Cisco, another tech company, has even posed the provocative question, "Is the office really necessary?", finding 60 percent of respondents to an international survey said that they did not need to be in an office to be productive. The numbers were especially high in places like China, Brazil, and particularly India, where more than nine out of ten workers said the office environment was unnecessary for productivity.

To unleash creativity and collaboration in today's knowledge economy, we need to put freedom and choice, not rules and constraints, at center stage. That means providing individuals with options about how and where they work and meet and collaborate, and treating

TO UNLEASH CREATIVITY AND COLLABORATION IN TODAY'S KNOWLEDGE ECONOMY, WE NEED TO PUT FREEDOM AND CHOICE, NOT RULES AND CONSTRAINTS, AT CENTER STAGE.

people as grown-up enough to find the best approach for the given task. It also means recognizing that this new world presents challenges as well as opportunities, and that some people will need more help than others.

So what can leaders and managers do to ensure that people are able to collaborate effectively, wherever their work location happens to be? Here's a list of suggestions:

DON'T PANIC. People will keep talking to each other, even when they are working remotely. One of the statistics that always strikes audiences comes from a teleworking pilot carried out by the U.S. General Services Administration, the agency responsible for federal buildings and facilities. Not only did productivity go up and carbon emissions from commuting go down but communication between employees increased by 55 percent.

GIVE PEOPLE TOOLS. Programs such as Yammer allow people to collaborate wherever they are. Encourage your employees to share their whole experience, not just work. Andy Lake, author of the new book *Smart Flexibility*, recommends that organizations run internal LinkedIn-style business networking sites where people can post their experience and interests. "The value of this goes beyond the progression of the individual," he writes. "By opening up new channels of collaboration, new avenues of innovation are also opened that can help to inject energy into the company." This is such a valuable skill today that being good at online networking, and at connecting people and ideas, should count toward career advancement.

PROVIDE A CHOICE OF ATTRACTIVE SPACES. Whether in a traditional corporate office or a new-style work hub, this is not just a matter of having spaces for different activities like concentrated work, brainstorming, private vs. open meetings, and small vs. large gatherings. It's also about making provisions for different personality types. An interesting paper by psychologist Nigel Oseland for office-furniture manufacturer Herman Miller points out that extroverts prefer large, face-to-face groups, informal meetings, and stimulating spaces, while introverts prefer written communications, small groups, teleconferences, and quieter spaces. Since introverts often want to think things through before committing to ideas in public, you could encourage their participation in collaborative work by providing more private spaces next to main meeting areas for follow-up conversations.

CREATE OPPORTUNITIES FOR SERENDIPITOUS EXCHANGES. Some of the best insights come from meeting people with different perspectives. Tom Ball, founder of NearDesk, which provides space in shared work hubs in the United Kingdom, is seeking ways to get people from different organizations (or strangers from the same company) talking to each other. At his flagship hub in London's Kings Cross, four live information screens tell users who else is working there that day. One of the screens is by the kettle, where everyone tends to congregate. Each person chooses a status: green for "social," amber for "busy," and red for "very busy." If you are in social mode, the screen displays information about what you do, as well as your name and photo, to encourage people to start conversations. It's not only co-workers in shared spaces who need this—dispersed teams within a single company also need the leader to encourage virtual water-cooler conversations.

FINALLY, AND MOST IMPORTANTLY, BUILD TRUST. Collaboration will not happen without it, and trust is a two-way street. It is not built by seeking to control employees' every move, nor by turning twenty-first-century offices into nineteenth-century factories where people feel shackled to their workstations. It is built by creating an environment that values people as individuals, gives them clear goals, and inspires them to contribute their very best. ■

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WHEN INFORMATION FINDS YOU

What to do when you stumble upon certain details about job candidates online?

NO QUESTION THAT SOFTWARE AND AUTOMATION HAVE STREAMLINED PROCESSES AND MADE ALL KINDS OF HR PRACTICES MORE EFFICIENT. But so long as human resources involves humans, technology won't solve the toughest recruiting and talent-management challenges. Things get messy quickly when trying to source and identify talented employees on the digital frontier.

The history of recruiting on the Internet isn't that old. Companies such as Apple, Microsoft, Google, and Yahoo! blazed a trail with a little bit of swagger and a whole lot of manifest destiny. They have spent the past two decades plumbing the depths of the Web—scraping message boards and pillaging chat groups—with the goal of hiring anyone with a heartbeat who knew how to code. Talent is scarce in their world, and they don't have the "luxury" of discriminating against women, minorities, and older workers.

The rest of us are now playing catch-up, and I worry that we don't know what we don't know. Sure, armed with all the comforts of a touchscreen phone and unlimited data plan, we may feel competent, confident, and preordained to incorporate social and mobile tools into all aspects of our business. But when it comes to staffing, we should think twice before abandoning traditional search practices in favor of a social-recruiting strategy that leverages the latest cloud-based platform.

Shally Steckerl, president of The Sourcing Institute, teaches HR professionals and leaders how to navigate this new, digital world. He believes that online connectivity provides an amazing opportunity to identify talent that doesn't appear on job boards, in employee referral programs, and on corporate websites. But he acknowledges the potential to make poor judgment calls when dealing with so much data and information.

In short: There are real dangers in looking for and scrutinizing potential employees online; you put your organization at risk when you Google candidates and treat information like a transaction. Ethical behavior is ethical behavior, whether you are reading a paper résumé or browsing a candidate's LinkedIn profile. And all sorts of employment laws—and even Sarbanes-Oxley—apply to the way you identify and source talented people online.

It's easy to keep digging online, following links, and you're practically guaranteed to encounter bits of information and gossip that candidates would prefer potential employers not see. So what do you do when you come across information online that reveals potentially private and protected information? Steckerl is clear: Disregard it. "Your responsibility is to find the most qualified people to fill jobs for your company," he explains. "Despite what you think, you weren't hired to be the culture police or make a citizen's arrest because of something you saw on Facebook or Twitter."

Steckerl also advises to think twice before you consider information that has nothing to do with the job for which you're hiring—whether it's found online or not. Something as simple as stumbling upon the reason why a candidate quit a previous job could reveal sensitive information that violates a host of worker-protection laws. And what about discovering that an older worker, out of work for an extended period of time, accepted a significant pay cut at his previous job? "If a 50-year-old white guy is laid off and takes a lower-paying job to pay his mortgage and feed his family, why is that important? If you're doing HR properly, the job pays what the job pays."

When you find information that could be concerning or put the company at risk, Steckerl advises you not to play cop, judge, or jury. Seek help from the appropriate internal resources, be it in-house counsel or the risk-management department.

Then there's the issue of passive candidates—those working elsewhere and who haven't actually applied for a job with you. Executive leaders are hot-to-trot for such individuals, who aren't jaded, cynical, and looking for a way out of a bad situation, but I wonder whether it is ethical to closely

scrutinize someone who shows no indication of being unhappy with her job or interested in a role within your organization.

Jackye Clayton, the founder of talent consulting firm Pursuitology, believes that everyone is a passive candidate waiting to be contacted, and that most social-media information is fair game. "If you're out there on the Internet, your information will be used by recruiters, sourcers, and researchers. People already know that—to an extent."

I am not sure that people do know that. Most global recruiting processes are shrouded in secrecy. The candidate experience feels like a black hole of nothingness, where recruiters and hiring managers make all kinds of obscure, quick decisions on the appropriateness of candidates based on unscientific principles such as likability and culture. I asked Clayton whether executive leaders and HR professionals are obligated to inform people about how they are being evaluated and reviewed for job opportunities they may not know exist in the marketplace. Clayton acknowledged certain obligations under the Fair Credit Reporting Act but seemed unfazed when we discussed Googling a candidate. She explains, "Social-networking platforms have an obligation to tell people how to use the privacy settings, but there's no additional obligation on behalf of an employer to educate and inform."

Clayton adds, "One day, there will be a president who did a keg stand that was captured on Facebook. Companies will get over it. People's sensibilities will adjust."

Ben Gotkin, principal consultant at Recruiting Toolbox, would neither confirm nor deny that he has done a keg stand, but he generally agrees with Clayton. "Recruiters and sourcers are paid to identify the best possible candidates who might be interested in considering your opportunity," he says. "Anyone can apply for a job that is posted out there, but it doesn't always mean the relevant, best candidate for the opportunity will see it. Sometimes talented people need to be found."

THERE ARE REAL DANGERS IN LOOKING FOR AND SCRUTINIZING POTENTIAL EMPLOYEES ONLINE; YOU PUT YOUR ORGANIZATION AT RISK WHEN YOU GOOGLE CANDIDATES AND TREAT INFORMATION LIKE A TRANSACTION.

When I asked Gotkin if he was concerned about violating the privacy rights of someone who may not want to be found, he said, "No. Such concerns are probably overstated. People went to the library and used corporate directories to find employees for years. The benefits of scouring public information on the Internet and sourcing for top talent can outweigh the risks. Companies that do it themselves can save millions of dollars in search fees."

I agree that corporate recruiters who connect top performers to amazing opportunities are important to an organization, but in the new age of unregulated Internet use, am I right to worry about the fine line between sourcing and stalking a candidate?

"Any recruiter or company executive who misuses personal information is breaking the law," Gotkin says.

What about a company that uses deep Internet sourcing to enhance diversity recruiting initiatives? In the past twenty years, organizations have been compelled to think about the hiring process in a new and more strategic way. The best recruiting teams have developed relationships with universities and created positive affiliations with professional associations. Could sourcing for candidates straight from the Internet—and using search strings based on superficial qualities such as geography, name, and race-based professional affiliations—undo the good work of the past two decades? Does technology enable companies to go out to the world and say, "Black Electrical Engineer Wanted. Apply Within" without actually saying it?

Yes and no. While racial, gender, and age discrimination may happen on social-networking sites, the employers who discriminate—and search for one type of candidate—would probably do so with or without technology. That said, "Facebook discrimination is not happening as often as you think," advises Tim Sackett, president of staffing firm HRU Technical Resources.

While my HR brethren have full faith and confidence in the fairness of the law, I am still suspicious. Internet sourcing and recruiting may be here to stay, but I wonder how the American Civil Liberties Union and employment lawyers will look back on this period twenty years from now. ■

DICK MARTIN is author of several books, including most recently *OtherWise: The Wisdom You Need to Succeed in a Diverse and Divisive World.* Previously, he spent thirty-two years with AT&T, including five as executive VP of public relations, employee communications, and brand management.

WHAT'S PUBLIC RELATIONS REALLY ABOUT?

Few CEOs would recognize effective PR counsel if they tripped over it.

BIOLOGISTS AND DRY CLEANERS CLAIM THE ODOR OF A SKUNK CAN LINGER FOR MONTHS. That's nothing compared to the stink that attaches to public-relations people. And no tomato-juice bath will help.

I exaggerate. But just a little. And the blame for those malodorous associations lies squarely with the CEOs and boards whose misguided expectations turn intelligent, honorable people into Orwellian message managers.

When *New York Times* media reporter David Carr observed that many corporate PR people "ladle out slop meant to obscure rather than to reveal," he could have been working from their implicit job description. Even when PR people seem "professional, courteous and fair-minded," Carr wrote, they're capable of running "black ops" operations designed to "intimidate reporters" or to get ahead of a story with "nonsense counter-spin." Why? Because that's what the typical CEO expects—whatever it takes to make reading the morning paper an indigestion-free exercise.

Most journalists—with the possible exception of David Carr—accept this as the price they have to pay for access to the information and decision-makers they need to do their jobs. But many don't think PR people are all that knowledgeable about the companies they represent. Many consider them flacks who have memorized a few facts about their company but are constitutionally incapable of acknowledging anything that might dim the halo they've hung over their clients' heads.

Some senior PR people have attempted to dodge the broad brush of such criticism, while simultaneously insinuating themselves into the exalted ranks of the corporate C-suite by changing their titles to something like Chief Communication Officer. Alas, that solution is not even as deep as the embossing on their business cards.

Consider, for example, that their cousins in political PR are the lifeblood of most TV talk shows. Diane Sawyer and George Stephanopoulos worked in the Nixon and Clinton press offices. Chris Matthews and Peggy Noonan wrote speeches for presidents Carter and Reagan. And the late William Safire went straight from a fifteen-year career in corporate PR to the Nixon White House and on to the columns of *The New York Times*.

Would Safire have landed such a plum position solely on the strength of his work for All-State Properties, the home builder that unknowingly provided the set for the famous Nixon-Khrushchev "kitchen debate"? I doubt it. PR people are not expected to have much to say on the substance of business or social issues. Political operatives, on the other hand, know their territory, candidate, and issues inside and out. And they're unafraid to go toe-to-toe with the candidate when necessary. As a result, they effortlessly pirouette from election campaign to media gig, while the PR heads of major companies are as welcome as a skunk at a picnic.

If corporate PR people know less about business than political staffers know about politics, and if they can only see their clients through rose-colored glasses, there's only one set of people to blame—the CEOs who hire them.

I'll go further: Few CEOs and boards would recognize genuinely effective PR counsel if they tripped over it. I've seen the practice of PR reduced to wordsmithing, story-pitching, glad-handing, and party-planning often enough to know that many senior business executives don't have the first idea what public relations is all about. To many bean counters, it's an inconsequential fringe expense. To many marketers, it's a way to generate free advertising. To many CEOs, it's a way to burnish the executive image, fill a mythical pool of goodwill, and keep pesky reporters at bay. And to most boards, it's someone to blame when trouble reaches headline proportions.

Even the Vatican thinks public relations is mostly a matter of message management. In the wake of scandals ranging from accusations of money

CEOS AND THEIR TOP TEAMS DON'T NEED SOMEONE TO SPIN REALITY FOR OTHERS—THEY NEED SOMEONE TO REVEAL REALITY TO THEMSELVES.

laundering to confessions of covering up child abuse, the Holy See hired a Fox News reporter as communications adviser. Like any journalist, he sees his role principally as a storyteller. "You're shaping the message, you're molding the message, and you're trying to make sure everyone remains on message," he told the Associated Press. "And that's tough." Indeed, reality has a sneaky way of undermining the most finely crafted message.

Ironically, the very characteristic that most CEOs rode into their corner offices is also their biggest weakness and the primary reason they need PR counsel. Effective CEOs have a laser-like focus on a handful of goals, but they have the peripheral vision of a baby bat. They spend 70 to 80 percent of their time in meetings with other company executives, believing it's the only way to find out what's actually going on in their own companies and to get everyone on the same page. But the downside is self-reinforcing executive myopia.

CEOs and their top teams don't need someone to spin reality for others—they need someone to reveal reality to themselves. When I ran PR for AT&T, I was never once asked to lie. But I often had trouble figuring out the truth. And if I hadn't participated in the company's highest councils, I wouldn't have had a chance.

CEOs—including those in clerical garb—shouldn't look for advisers familiar with the whys and ways of the media. They need the counsel of someone who understands their business as well as the people running it, but isn't held hostage to short-term goals such as meeting quarterly earnings. Someone who can provide peripheral vision based on a deep understanding of the world outside the boardroom walls. Someone who can anticipate problems before they arise and help senior executives deal with them squarely, balancing the interests of all the people who contribute to their company's success and bear the risks of its failures.

The PR industry is full of so-called counselors who do only half the job. Some are all about the company's "image," especially as manifest in its CEO. Armed with smoke, mirrors, and follow spots, they confuse celebrity with credibility. They're all about getting attention and creating buzz. They teach executives how to answer questions not asked and how to wrap themselves in flag, motherhood, and whatever dessert is most typical of the country they happen to be visiting.

Others presume to be the company's "conscience." They're all mouth and no hands. They forget they represent a business. To them, all price increases are a disaster, all layoffs a catastrophe, all controversy an occasion of sin. Like Chicken Little, they are universally ignored and, on their best days, humored. Real PR counselors get into the trenches with their clients, sharing the burden of creating value for customers, employees, investors, and society.

Public relations has two roles: advocacy and counsel. Counsel usually takes a backseat to advocacy, which always seems more urgent at the moment. But effective counsel can make advocacy less critical. Many CEOs look for good writing from their PR counselors because that's the stuff of advocacy. What they should be looking for is good *thinking,* which is the foundation of effective counsel.

In a world with few long-lived secrets, your reputation is the product of what you *do,* more than anything you can say. You don't need a wordsmith at your elbow when you're trying to figure out what to do. You need someone who can help you balance the interests of all the people who depend on your company with those of all the people on whom it depends. That simply isn't possible without a deep knowledge of both. And that, in fact, is the only way to avoid the whiff of failure and scandal. ■

SIGHTINGS

THE DARK SIDE OF GROWTH

WHAT WOULD A PLANET WITH NO ELECTRICITY LOOK LIKE? NBC's drama *Revolution* answers this question. With no power, a sense of powerlessness grips society—you know, like how you feel when your cell-phone battery dies. Sort of. You can imagine this world—and feel grateful that you don't live in it—by tuning in on Monday nights, but millions of people are trapped in it for real.

Last July, India endured history's most expansive blackout, affecting some 670 million people—about 10 percent of the world's population. As the Indian economy swells, power outages remain commonplace—and increasingly embarrassing—in a nation that prides itself as a growing economic force. Each blackout shines a light on what happens when a country's economy expands beyond what its infrastructure can support. When the power grid goes dark, so do businesses, leaving laborers little to do but nap, like the employee pictured above outside a yarn-spinning-equipment factory in the southern Indian city of Coimbatore after a blackout in January.

Meanwhile, a government notorious for burdensome bureaucracy struggles to figure out how to keep the lights on. Numerous studies paint a shadowy future, with some suggesting that India remains decades away from meeting its energy needs. Problems plague nearly every part of the supply chain, including the national transmission system, which a McKinsey study estimates needs $110 billion to fix. Critics also point to bankrupt local distributors, crippled by what some argue are onerous and outdated government policies that, for instance, supply farmers with free electricity.

Ultimately, a problem this complex will demand that officials from both public and private sectors stay up many nights working together. That is, if the lights don't go out.

—VADIM LIBERMAN

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