THE CONFERENCE BOARD REVIEW

IDEAS AND OPINIONS FOR THE WORLD'S BUSINESS LEADERS

INNOVATION IS FINE; EXECUTION IS CRITICAL

THE COMPANY IS SINKING—SHOULD YOU JUMP SHIP?

BOB LUTZ ON LEADERSHIP: GOOD, BAD, AND UGLY

PERFORMANCE MISMANAGEMENT

TO GET RESULTS, STOP MEASURING PEOPLE BY THEM.

THE CONFERENCE BOARD

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IDEAS AND OPINIONS FOR THE WORLD'S BUSINESS LEADERS

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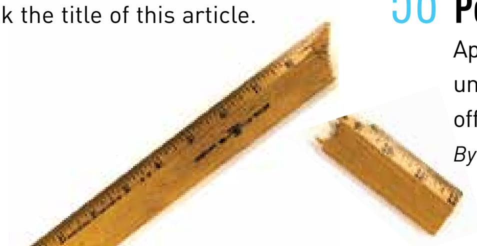

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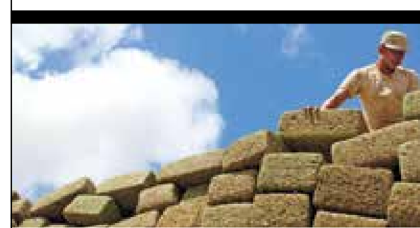


SIGHTINGS

A Sea of C's

BY BARRY DALTON

BARRY DALTON is chief strategist driving multi-channel customer engagement for Telerx Marketing. From the Switch & Shift blog.

EXECUTIVE, FINANCE, INFORMATION, MARKETING, OPERATING, CUSTOMER, COLLABORATION, PEOPLE, LEARNING, DATA, ANALYTICS, LINGUISTICS, COMMUNITY, INNOVATION, CREATIVE, STAFF, ADOPTION, MEDICAL, COMPLIANCE, ADMINISTRATIVE. This is just a sample of the "chief" titles I've come across in various organizations. Google it—I'm sure you could find even more.

Now, let me say: I mean absolutely no disrespect to anyone who holds one of these titles. I don't assume to know all the possible personal motivations that come into play when one accepts a job. Or all the effort put forth by those who take on these roles intent on making a difference. Anyone who does anything with that ultimate objective in mind—to make a difference; to leave behind something better than what he found—has a place in my Human Being Hall of Fame.

A few stark questions hit me the other day, however, as I was watching an interview with a company's chief linguistics officer. Are we drowning in a sea of C's? What are we trying to solve for? And what does this say about big corporate structure? Has the traditional corporate operating model become so dysfunctional that we need a seat in the boardroom for every conceivable function?

I'm not really sure what a chief linguistics officer does. However, if the communication chasm within big organizations has grown so wide that a C-level executive is needed to provide interdepartmental translation services, it's no wonder deeper connections with customers is such a challenge.

I've spent a good part of my career solving business challenges through enabling technologies. Where enterprise technology projects fail, it is largely due to implementing technology before a related compelling business problem has been adequately defined. This seems to be where organizations are with respect to the proliferation of chief officers. We're applying solutions to challenges that are not clearly defined. Or perhaps the challenges may not even exist.

At a time when business models are decentralizing and enterprise technology is disintermediating, traditional hierarchies are less effective as management tools. Through my unscientific observations of a wide variety of businesses in different industries, I have concluded these trends are one of the key drivers of excessive "chiefdom." I believe many companies are struggling to cross the chasm between control and real empowerment.

Adding fuel to this fire is time compression and rapidly changing market pressures eroding the value created by long-term strategic planning. As markets drive companies to change gears, and often direction, more swiftly than ever, very few are able to absorb these changes and positively respond within the core organizational DNA.

As a result, organizations find themselves in need of yet another senior officer to develop a response.

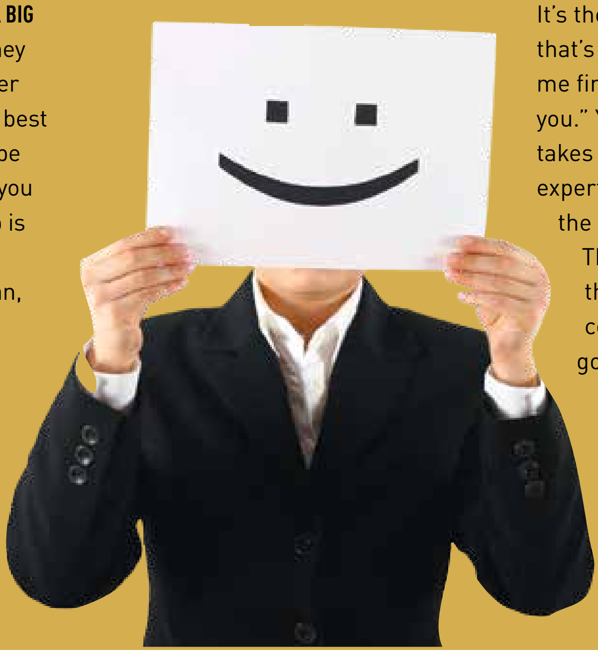
When innovation is necessary for survival and growth but isn't woven into the fabric of a company's culture, executive teams bring on a chief innovation officer to fix that. When customer-driven communities are driving more and more customers away from a brand's owned media, the chief community officer is hired to figure out how the brand should participate in the community, as the marketing folks have enough on their plate managing the promotional calendar.

The common thread seems pretty clear to me: reaction vs. prediction; shiny object vs. clarity of purpose and direction. In contrast, when I think of the most innovative, customer-engaged, creative, collaborative, or analytical brands, I don't see them drowning in a sea of "C."

Perhaps a better approach would be for the CEO to ensure that her vision is clear. And that the troops are given the tools and rewards to execute on that vision. It really is that simple.

What's My Job? BY CY WAKEMAN

THOSE WHO WORK WITH ME ARE SOMETIMES SHOCKED TO DISCOVER THAT I AM NOT A BIG FAN OF JOB DESCRIPTIONS. For me they mean very little. I hand them over with a list of caveats: This is my best guesstimate of what you might be doing for some of the time that you are here. But, basically, your job is to work toward the goals of this organization in every way you can, all the time.



I draw a distinction between focusing on your job and your role. Your job description isn't the beginning and end of your responsibility. Consider how you fit into the larger goals of the company. Who are you there to serve? How can you make sure that happens? It's the difference between, "Sorry, that's not my department" and, "Let me find someone who can help you." Your role is to do whatever it takes (within your licensure, your expertise, and the law) to delight the customer and deliver quality. The sooner you get clear on that, the happier and less conflicted and anxious you are going to feel.

■ CY WAKEMAN is a leadership consultant and speaker. From *The Reality-Based Rules of the Workplace: Know What Boosts Your Value, Kills Your Chances, and Will Make You Happier* (Jossey-Bass). ©2013

Why Parents Do Not Belong in HR

BY VADIM LIBERMAN

Do parents make good HR professionals?

I ask because I worry that too many HR people—with or without children—mistake themselves for moms and dads when they come to the office. That is, when companies send employees the well-meaning message that HR is here for them anytime they have interpersonal conflicts, they treat them like first-graders.

We're all supposed to be adults, the cliché goes, so why do so many workers act like children? Because HR won't let them grow up. Sure, you want to help your people resolve disputes, and you should communicate that. But there's a difference between conveying a message and encouraging workers to act on it.

Do not embolden your people to run to Mom. Mom does not work in HR. An overworked executive does, and she has better things to do than address complaints from employees whose college degrees should qualify them to keep non-issues from ballooning into issues, and resolve them if they do.

This anecdote isn't about colleagues thwarting your Bring Your True Self to Work Day Parade. It's about concerned co-workers paving a road, or paper trail, with good intentions (you know where that leads). It also highlights missed opportunities to interact with, learn from, and understand each other.

The problem is, we all fear being confronted as much as we do confronting others. But when someone, particularly a manager, avoids addressing co-workers directly, he highlights his own laziness and lack of interpersonal skills, fails to build positive relationships, possibly creates negative ones, and fosters pointless corporate bureaucracy.

Good leadership is not about avoiding confrontation, it's about managing it—and the only way to manage confrontation is to have it without needlessly involving hapless HR staffers when possible, which is almost always possible.

There is almost no issue—be it allegedly inappropriate language in an email or potential sexual misconduct—that demands a sit-down with HR rather than initial conversations between employees.

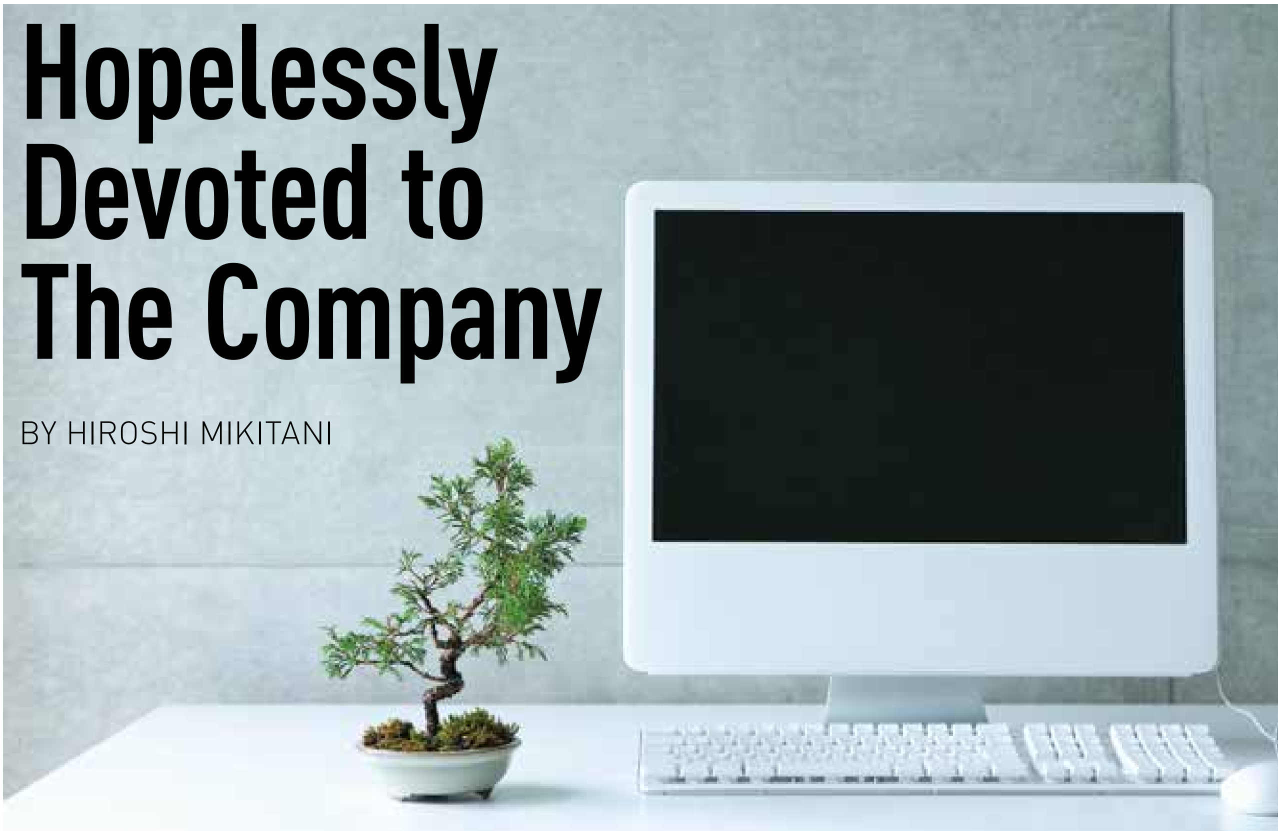
No matter the discomfort, when employees talk to each other first, the company benefits through increased camaraderie, collaboration, and confidence among staffers. Dragging in HR, which should be a last resort, can easily breed contempt—because even if HR can help end a conflict, it doesn't necessarily solve it.

Ultimately, the best companies are those with employees who feel as though they can go to HR—but do not.

■ VADIM LIBERMAN is senior editor of *TCB Review*. Adapted from a post on the TLNT blog.

Hopelessly Devoted to The Company

BY HIROSHI MIKITANI



When we have found a company that suits our business goals and shares our long-term view of the business, we next look for a key factor in any successful collaboration: a cultural fit. We know that at Rakuten, we do not do business in the same manner as every other company in the marketplace. Rakuten Shugi—the Rakuten Way—is in many aspects unique to us. It is the core of who we are and how we behave every day. There is no element of Rakuten business that does not seek to reflect Rakuten Shugi in everything it does. So when we look for a company to acquire, we discuss the Rakuten Shugi very early on.

Why does this matter so much? Can't a cultural issue be worked out later? Isn't this a "soft" issue, not a core reason to buy or not buy a company? I would argue no. In fact, the cultural fit is so important, it must be discussed long before any financial considerations are on the table. Rakuten Shugi is a huge part of why we are successful. A poor fit with Rakuten culture may indicate other problems ahead.

For example, one element of Rakuten Shugi is our Tuesday-morning tradition in which every employee—from me to the newest member of the staff—cleans his or her own workspace. And when I say "clean," I mean *really* clean. We pick up the trash. We get down on the floor and clean the area under our desks. We polish the legs of our office chairs. Why? Because it is a manifestation of how we care about this company and about the work we do here.

If there were trash on the floor of your own home, would you step over it and ignore it? No, of course not—you would make sure on a regular basis that your home was clean and presentable. This is because you care deeply for your home and take pride in its appearance. The Rakuten cleanup taps into that same emotional place. When we clean, and when we put our effort into the process, we show our commitment and our devotion to our mission. This is a process by which we all strive to be modest and push back any tendency to arrogance.

I recognize that this weekly cleanup is uncommon. In fact, I'm not sure I can think of another CEO in any other country who polishes his office chair every week. But we hold this particular ritual dear. When we meet with a potential acquisition target, this is one of the cultural discussions we have. Not just about cleaning but more broadly about Rakuten Shugi. We are not looking for obedience or subservience. We are looking for a firm that feels as we do—that the company should be in your heart the same way your home is in your heart, and that everyone should attend to the company with the corresponding attention and devotion.

HIROSHI MIKITANI is founder and CEO of the e-commerce company Rakuten. From *Marketplace 3.0: Rewriting the Rules of Borderless Business* (Palgrave Macmillan). ©2013

Working Closely Together

BY ROGER SCHWARZ

I USED TO SAY THAT WHO IS SLEEPING WITH WHOM IS NOT AN UNDISCUSSABLE ISSUE—IT'S GOSSIP—BECAUSE AN UNDISCUSSABLE ISSUE HAS TO BE DIRECTLY RELATED TO THE TEAM'S EFFECTIVENESS. That was until I was consulting with the VP of sales for a high-tech company. The VP, whom I'll call Roz, was working with her team to prepare for the annual conference that was the single largest sales generator for her organization. The team needed to work closely together to manage the conference work. Unfortunately, two members of the team were not talking with each other because one member had been having an affair with the other member's wife. Most if not all of the team members knew about the situation. The team members tried to act as if nothing was happening, but communication and planning were breaking down. Roz feared that the team would get to the conference, not make sales, and miss the company's revenue targets.

As much as Roz didn't want to raise the issue, she realized that not raising the issue was a bigger risk. First she spoke with her two team members who were directly involved in the affair. She told them why the team needed to deal with this issue. Then together they met with the full team. The focus of the conversation was to jointly figure out how they were going to work together closely in the challenging situation. To identify the problem and plan how to address it, the team had to discuss the undiscussable—the affair—but the heart of the conversation was about how to work together.

ROGER SCHWARZ is a leadership consultant and organizational psychologist. From *Smart Leaders, Smarter Teams: How You and Your Team Get Unstuck to Get Results* (Jossey-Bass). ©2013

Stop Overpromising

BY CHUCK WALL

JUST BECAUSE YOUR COMPETITOR PROMISES SOMETHING DOESN'T MEAN YOU HAVE TO DO IT TOO. I know a large residential air-conditioning company that decided to promise one-hour service dispatch just because its competitors did. Unfortunately, there was no operational plan in place to deliver the promise. It just sounded like a good idea to the boss because he was tired of hearing his competitors' radio commercials on the commute to the office. Customers are smart; they know a marketing gimmick when they see it. I guarantee that knee-jerk promises will do much more harm than good.

CHUCK WALL is founder of Customer CEO, a marketing consultancy. From *Customer CEO: How to Profit From the Power of Your Customers* (Bibliomotion). ©2013

The Nonprofit Company of The Future

BY ROLF JENSEN AND MIKA AALTONEN

WHEN MORE AND MORE PEOPLE LEAVE THE VALLEY OF MATERIALISM, COMPANIES WILL STILL NEED SOME PROFIT IN ORDER TO EXIST, BUT THEY WILL DO IT WITH AN IDEA—A NONMATERIAL ONE. It could be superior craftsmanship, animal welfare, or helping the local community or the world's poor. It could be that the company's purpose is to empower people, to allow them to thrive in their lives. The company will still have a product or a service to sell, but that will really be a by-product. The real product will be the idea and the values it represents; that will be why people buy it, why employees love to work for the company, and why investors invest in it.

This movement has begun. Take just one example: Wikipedia, the online encyclopedia with tens of thousands of contributors. Why are these people doing this? Why not make it into a for-profit company? The "employees" (the volunteers) do it for reasons other than money. After millennia of striving for material things, this is a fantastic change of logic. When the respected U.S. business magazine *Fortune* chooses to change its title to *Thriving*, it will have happened, but this may take some time.

For the next ten years, the vast majority of the companies in this world will remain for-profit companies, especially in the emerging economies. Gradually, however, companies in the West will choose to appeal to the new nonmaterial consumers and employees. This has already started softly, with ads telling consumers that the company supports this or that charity or that it respects nature and the environment, but gradually this will increase and the nonmaterial raison d'être will dominate marketing and corporate culture. It will be a gradual thing, since the transformation will be of a magnitude never experienced before.

ROLF JENSEN is chief imagination officer at Dream Co., a Copenhagen-based management consultancy. MIKA AALTONEN is co-founder and partner at the Helsinki Sustainability Center. From *The Renaissance Society: How the Shift From Dream Society to the Age of Individual Control Will Change the Way You Do Business* (McGraw-Hill). ©2013

Trust Me

BY BOB GARFIELD AND DOUG LEVY

This was one of those incredible experiences that inform a man's impression of the world we live in. The scene was a lunch table at a Marina del Rey hotel meeting room. The occasion was a J.D. Power automotive marketing conference, the year 1990-something. There were ten people at the table eating chafing-dish salmon. One of them was one of your co-authors. Another was an extremely prosperous California car dealer. The subject of consumer trust had come up, whereupon the car dealer chimed right in.

"I know just what you mean," he began. "We want people to feel at home in our stores. We want them to feel like they're among friends. If I see a lady who looks like she's worried about the process, I'll just have her into the office, just to talk. Not to sell, just to visit, to find out something about her, share something about us. It is so important to establish that trust. And then, once we've done that, we can really squeeze 'em in!"

Upon the realization that this lecture was being delivered in dead earnest, nine people were rendered speechless. The only response was the sound of cutlery madly clinking against hotel china. The guy's dumbfounded audience, most of whose members were in the car business themselves, could not tell if he was the most cynical man in their industry or merely the most oblivious. And surely they appreciated what this cardboard-cutout stereotype of a slick car salesman did not: that trust constructed as a means to a mercenary end is not trust at all.

BOB GARFIELD is co-host of the NPR show *On the Media*. DOUG LEVY is founder and CEO of MEplusYou, a strategic marketing agency. From *Can't Buy Me Like: How Authentic Customer Connections Drive Superior Results* (Portfolio/Penguin). ©2013

Going Social

BY JED HALLAM

BUILDING A SOCIAL BUSINESS IS NOT ABOUT HAVING A TWITTER OR FACEBOOK STRATEGY—IT IS ABOUT STITCHING BACK TOGETHER THE CONSTITUENT PARTS OF YOUR BUSINESS THAT HAVE BECOME SILO'D AND DISPARATE OVER THE COURSE OF ITS HISTORY TO CREATE A FLUID ENTITY THAT ALLOWS DATA AND INSIGHTS TO FLOW FREELY ACROSS EVERY DEPARTMENT OF YOUR BUSINESS. Social business is about relinquishing corporate control, and building an open culture, where anyone within your organization can make suggestions and improve the performance of your business. It is about actually listening to and understanding your market, not from behind a camera listening to twelve people discuss what they do and don't like about your products or services, but about being present at 4 a.m. when a mother is asking a forum of her peers what to do because her washing machine has broken and it is leaking water throughout her home.

Social business is about getting so close to your market that they feel like a part of your business, because they are. Your market is your business. Without them, all you have is a building full of people in starchy suits showing presentations filled with graphs pointing optimistically upward and making predictions about "what our core demographic" wants. These presentations are unnecessary, because your "core demographic" is telling you what they want, what they need, what they hate, and why they hate it. It is just that your organization is not listening to them.

Becoming a social business is about stepping back out from behind your desk and engaging with your employees, trusting them, encouraging them, and making them feel like they are part of something much bigger than a 9-to-5.

The world has fundamentally changed over the last twenty years—we are in a time of economic uncertainty when people cannot afford to take risks on products or services that might not work, but fortunately for consumers, technology came to the rescue, giving them access to their peers like they had never known before. Those peers are leaving reviews of your business on TripAdvisor and pointing out that "while the description said it was in the middle of the city, it was actually a thirty-minute walk." They are tweeting about your rude customer-service team. They are "Liking" your Facebook page to get the discount voucher and then immediately "Unliking" your page because they do not want their two thousand friends to think that they were endorsing your brand. The world has changed, and it is time for your business to change too.

■ JED HALLAM is social director of the brand-marketing consultancy VCCP Share. From *The Social Media Manifesto* (Palgrave Macmillan). ©2013

Born With It?

BY PHILLIP VAN HOOSER

I recently had a rather animated conversation with an individual who, for some misguided reason, didn't share my belief that leaders are not born but *made*. He tried repeatedly (and unsuccessfully) to convince me that a leader either has it or doesn't have it from birth—though I was never quite able to get this gentleman to specifically define what the *it* is.

I find his assertion to be very troubling—and here's why. If this man is right (and I don't for a moment believe he is), then there would be no reason to read any book that deals with topics of leadership, motivation, communication, problem-solving, team-building, or a litany of other subjects about people interacting with other people. Books—in addition to training sessions, coaching, mentoring, even personal experiences—would be of no benefit and a total waste of time for those unfortunate souls born without the leadership *it*. Why? Because those who have *it* simply don't need leadership instruction, or anything else; they've already got *it*. And those who don't will never be able to get *it*—try as they might—from any book or educational effort.

I'm more optimistic than that. I believe that every human birth brings with it the possibility of a new leader. A newborn child conceivably has the potential to learn and grow to become a famous leader in the mold of Abraham Lincoln, Mahatma Gandhi, Martin Luther King, or Mother Theresa. Or maybe the child will simply grow into a more common, albeit less publicly visible leadership role in his or her company, community, or family. But every single one of them can learn to lead, as can the rest of us.

How can I be so sure? Well, for one thing, I've witnessed the birth and development of three leaders firsthand: my children, who are no longer children but contributing adults who serve admirably in various leadership roles at their jobs, in their communities, to their peer groups, and in their homes. They are leaders not because I say they are but, rather, because individuals have chosen, voluntarily and repeatedly, to follow them.

But they haven't always been leaders. I was physically present, an excited eyewitness, when each of my children entered this world. I watched with anticipation and awe as each took his or her first breath. I remember them looking remarkably similar—little pink, naked bundles of leadership potential. But I can assure you that not one of them, during their moment of entry into this world, leapt to his or her feet in that delivery room shouting, "Follow me!"

PHILLIP VAN HOOSER is a leadership consultant and former president of the National Speakers Association. From *Leaders Ought to Know: 11 Ground Rules for Common Sense Leadership* (Wiley). Excerpted with permission of the publisher. ©2013

CLASH!

8 CULTURAL CONFLICTS THAT MAKE US WHO WE ARE

By Hazel Rose Markus and Alana Conner
Hudson Street, $25.95

The world may be flat, but cultural psychologists Markus and Conner see impassible rifts everywhere. "With new technologies bringing our outsize populations together, we more often interact with people whose ways of being don't jibe with our own, and who therefore leave us baffled." For people trying to negotiate the new landscape—and for businesses in particular—it's crucial that they know the territory.

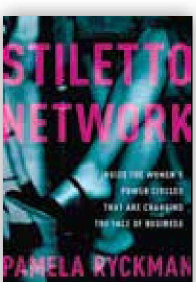
Markus and Conner see many of our fundamental conflicts—East vs. West, rich vs. poor, coasts vs. heartland, etc.—as a clash between people being independent and interdependent. This framework can help readers understand seemingly intractable conflicts in business and society, across geographic and cultural lines, and bridge them. Step one, the authors argue, is acknowledging the gaps: "calls for culture-blindness are naïve."

Clash! is remarkably readable, written in dynamic prose that's all too rare in this type of book, and the authors resist going too far into the realm of pop psychology and self-help. It's a genuinely substantial work.

STILETTO NETWORK

INSIDE THE WOMEN'S POWER CIRCLES THAT ARE CHANGING THE FACE OF BUSINESS

By Pamela Ryckman
AMACOM, $22.95



Journalist Ryckman chronicles the rise of groups, formal and informal, that offer ambitious women support, encouragement, and networking opportunities. "This book is about groups that make women big, bold, and brave," she writes, noting that "when you put a bunch of motivated ladies in the same room, exciting things happen."

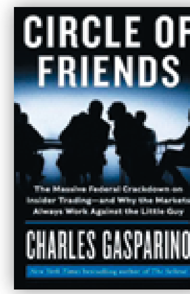
The difference between Stiletto Networks and the traditional old boys' network is that, in Ryckman's telling, these aim to be both professional and personal: "The next decade will see an explosion of female wealth and power. But it's not about the money, women say. It's about the love. There's a massive money trail, but the relationships themselves are not transactional; they're true friendships based in loyalty, care, and respect." And she recounts any number of success stories from women "furiously networking with other women."

On the (high) heels of Hanna Rosin's warnings of "the end of men and the rise of women" and recent news of the rise of female breadwinners, some will no doubt see this trend as ominous. But it seems only fair play after the decades of men-only social clubs and golf games. One can even forgive the idea of naming these networks after painful, unstable footwear that exists primarily for the visual pleasure of men.

CIRCLE OF FRIENDS

THE MASSIVE FEDERAL CRACKDOWN ON INSIDER TRADING—AND WHY THE MARKETS ALWAYS WORK AGAINST THE LITTLE GUY

By Charles Gasparino
HarperBusiness, $28.99



In his Fox News spots, Gasparino is unfortunately prone to belligerent, reflexively right-wing blurts that taint solid reportage and analysis. His books are marginally less contentious, but they're undeniably credible, adding fly-on-the-wall color to established narratives, challenging existing interpretations, and taking readers inside boardrooms and prosecution meetings. *Circle of Friends*, "less a polemic than a crime story," takes a hard look at prosecutors' tendency—for political and résumé-buffing reasons—to go after insider trading rather than murkier kinds of financial trickery, even though, he insists, current prosecutions have done nothing to shore up the confidence of smaller investors.

Gasparino doesn't exactly defend insider trading, but he brusquely questions both its importance to the investment community and the public funds spent prosecuting it. Ultimately, this book, loaded with narrative and detail, will further convince Wall Streeters who already fear overzealous investigators. Other readers will likely shrug: The problem isn't too many agents going after trading violations—it's too few going after every other kind of violation, as well as too much dubious behavior not being classified as violations in the first place. —MATTHEW BUDMAN

■ RITA GUNTHER MCGRATH is a professor at Columbia Business School and dean of the Fellows of the Strategic Management Society. Adapted from *The End of Competitive Advantage: How to Keep Your Strategy Moving as Fast as Your Business* (Harvard Business Review Press). ©2013

LETTING GO

WHEN AND HOW TO DROP A BUSINESS THAT ISN'T WORKING ANYMORE.

BY RITA GUNTHER MCGRATH

TEXTS ON STRATEGY AND INNOVATION ARE FULL OF GREAT IDEAS OF NEW THINGS THAT LEADERS SHOULD DO. BUT, LAMENTED A SENIOR EXECUTIVE I WAS WITH RECENTLY, "THERE AREN'T ANY TEXTBOOKS ON WHAT TO *STOP* DOING!" IN A WORLD OF TEMPORARY ADVANTAGE, STOPPING THINGS—EXITING DECLINING ADVANTAGES—IS EVERY BIT AS CRITICAL AS STARTING THINGS. ACTIVITIES NEED TO STOP BECAUSE THEY CAN NO LONGER DEMONSTRATE GOOD GROWTH POTENTIAL, OR PERHAPS COMPETITORS HAVE MADE THEM A COMMODITY, OR PERHAPS THEY SIMPLY HAVE FEW GROWTH PROSPECTS.

Growth outlier firms—those rare companies that have maintained steady growth despite industry upheaval—use a process of continuous small changes to avoid having to make more substantive exit and disengagement decisions. But not all firms are so fortunate, and there are occasions in which a more radical disengagement is simply necessary. This could be because a declining business drops off faster than expected (as happened to Fuji Photo in the 1990s), because markets change in a radical way (as happened to the smartphone business with the introduction of the iPhone), or simply because a firm lingers a little too long in the "exploit" phase and didn't reconfigure.

Evidence that a business or business model is going into decline is usually quite clear long before it creates a corporate crisis. If one is interested in looking, there is usually a lot of good information to be found. The trouble is that this information seldom turns up in the routine measurements that companies use to drive their businesses.

The first clear warning sign is when next-generation innovations offer smaller and smaller improvements in the user experience. If the people designing the next-generation offer are having trouble conceiving of new ways to differentiate

Illustration by Ikon Images/SuperStock

what you do, that's not good. If your scientists and engineering types are predicting that some new discovery will undermine the existing trajectory, that is also not good. For instance, RIM's BlackBerry email devices were the natural descendants of the first pagers, with keypads. The trajectory on which they developed didn't change much, adding mostly incremental touches such as colored screens, cameras, voice recorders, and some applications. Although customers appreciated these innovations, they were no longer excited by them.

A second clear warning sign is when you start to hear customers saying that new alternatives are increasingly acceptable to them—or, worse, that cheaper alternatives are just as good as what you have to offer. For example, Google has developed a maps application for Android-equipped mobile phones that provides turn-by-turn spoken navigation. This has prompted a decline in the attractiveness of stand-alone GPS navigation devices and even predictions that such devices will no longer be popular in automobile dashboards or as handhelds. Even worse is when a competitive or substitute offering shows the threat of changing the dimensions of competition customers are looking for, particularly if it comes as a surprise. RIM, stuck in a pager-based mindset, never saw the iPhone coming.

By the time a decline shows up in your performance numbers, it is usually too late to muster a proactive response, and you find yourself clambering back in a weaker position than you had been in.

Finally, of course, you can consult your numbers. Usually, there's first a small decline in the sales growth rate. Then a flattening out. Then noticeably declining sales. Unfortunately, by the time a decline shows up in your performance numbers, it is usually too late to muster a proactive response, and you find yourself clambering back in a weaker position than you had been in.

At Wolters Kluwer, a once-traditional publishing company navigating a transformation to the digital world, the executive team has honed the process of managing a portfolio of products. With products that still have some life cycle, the company manages by "pruning," as CEO Nancy McKinstry notes. Updates might be a little less frequent, and fewer editorial resources might be dedicated. This is considered "harvesting" and has been readily adopted as part of the way in which publishing life cycles are managed. Far more difficult is the challenge of an outright divestiture. McKinstry has instituted a review that "organizes micro markets by category": Anything growing organically more than 5 percent is considered to be high growth and will continue to be supported; growth in the 2 percent to 5 percent range is considered "maintain"; growth below 2 percent is a candidate for harvest and, failing that, for divestiture.

WHO MAKES THE EXIT DECISION?

It is unrealistic to expect managers whose careers and future prospects depend on "their" business continuing to put up their hands and suggest that the company kill that business. Indeed, all the skills of increasing efficiency and deepening customer loyalty that are so valuable during the period of exploitation can make a business that really should be a candidate for disengagement look attractive long after its time. Further, many companies fail to effectively aggregate or present information that might lead to questions about a business or division. There seem to be three ways of overcoming this challenge. The first is to set up an ongoing, dedicated team to regularly go through the firm's portfolio and identify candidates for disengagement or divestiture, as Wolters Kluwer has done. The second is to aggressively and frequently change the management team. The third is for the CEO to drive regular evaluations of what should be in and out of the business's portfolio, a challenge that Procter & Gamble's A.G. Lafley defines as "linking the outside to the inside" of a business. As he argues in an *HBR* article, "only the CEO has the enterprise-wide perspective to make the tough choices involved."

At Yahoo! Japan (a growth outlier company), Makiko Hamabe, head of investor relations, echoes this thought: "Our CEO says that he is his own heaviest user, and as a user he doesn't want Yahoo! Japan to do something that annoys him. That's the basic idea." This connection to the business allows the CEO to drive a relatively dispassionate numbers-based evaluation of what offerings Yahoo! Japan should pursue and which it should abandon. In that company, key reasons for disengagement are when usage and profitability are low, or if a service creates conflicts with other businesses. "For example," Hamabe says, "several years ago we stopped offering videocast. It was like YouTube in that people can upload videos. But as you know, on YouTube you have a lot of non-licensed unofficial videos. So we have instead a service like Hulu; we call it Yell. It's also a video service, but the content is authorized." The videocast business, deemed incompatible with good relations with content producers, was ended.

It's important to remember that over time, statistically, most businesses lose value. Indeed, in researching their 2001 book *Creative Destruction*, then-McKinsey researchers Richard Foster and Sarah Kaplan found that as a business ages, its total return to shareholders, relative to its industry, declines systematically. A 2002 *HBR* article makes a similar point: If you think you have a candidate for divestiture or otherwise ramping down, you should move quickly because the passage of time will rapidly destroy any remaining value.

Here, however, we are contemplating the problem that is sometimes unavoidable: when a business that once created competitive advantage ought to be removed from the corporate portfolio. This can be for any of three reasons. First, you may have concluded, as Netflix has, that your current core offering is becoming obsolete for some reason and you need to transition customers, suppliers, and the organization to some new platform. Second, a business might actually have strong cash flow and be attractive as a going concern, but it no longer fits your strategy. Or, finally, a business or capability may simply be heading into obsolescence.

STRATEGIES FOR DISENGAGEMENT

The first dimension concerns the judgment of management about the future of an asset or capability. The second concerns the extent to which there is substantial time pressure to enact the disengagement.

Orderly Migration: Customers' Needs Are Going to Be Met in a New Way, but You Have Time

I first ran across the remarkable story of Norway's Schibsted Media Group in a 2010 *BusinessWeek* article. Schibsted is a

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newspaper publisher, a venerable institution founded in 1839. Like newspaper publishers everywhere, it is coping with a staggering loss of ad revenue. The 2010 article noted that U.S. newspapers' ad revenues had collapsed, from $48.6 billion in 2000 to $24.8 billion in 2009, with classified ads suffering the greatest declines. Like their American brethren, Schibsted's newspapers, dailies such as *VG* and *Aftenposten*, have seen their ad revenue fall dramatically. The difference is that Schibsted doesn't care. As it turns out, most of the customer defections are going from Schibsted-owned companies to . . . well, a Schibsted-owned company. In 1999, the company spun off an online business called FINN.no that provides a platform for online advertising. It competes directly with the papers, and as far as CEO Rolv Erik Ryssdal is concerned, that's just fine with him. "We weren't afraid to cannibalize ourselves," he told a reporter in 2005. The company is now the world's number-three player in online advertising, behind Craigslist and eBay. Profit margins at some of its sites are reported to be 60 percent.

The Schibsted story illustrates how one can disengage from a business by gradually migrating customers, revenue streams, and operating models from the old advantage to a new one. It is also an interesting take on reverse customer adoption. Those customers who wanted to go online found a ready vehicle for doing so and converted early. Those who didn't want to work this way weren't forced to do so until they were ready. Shibsted skillfully managed the migration from early adopters through the mass market.

In its 2011 price-hike debacle, Netflix had more trouble. By forcing a transition on customers before many of them were ready, the company enraged them. Rather than figuring out which segments should be exited, and doing so sequentially, Netflix attempted the same strategy for everybody all at once—and made no one happy. Management should have realized that preparing customers for transitions is just like getting them through the new-product adoption process, except in reverse. Not all customers are going to be prepared to move at the same rate. There is a sequence to which customers you should transition away from first, which next, and so on.

If CEO Reed Hastings had, instead of raising prices for everybody and moving to orphan the company's DVD service, selectively offered price discounts to those who would drop DVD service, he would have moved that segment over to the new model. Then he could have gone to the "light user" DVD consumers and suggested that instead of getting a new disk any time they wanted it, they would get one a month, say, for the same price. If they wanted the instant service, their rates would go up. That would shift another bunch to at least a point of lower DVD usage. Then, when these segments started to realize that all-streaming wasn't so bad, he could do the big price increase for the mainstream buyer.

Hail Mary: The Core Business Is Under Immediate Threat, and It Sure Feels Like a Crisis

This is a situation you don't ever want to be in. The core business is under immediate market-share and margin threat, there's no silver bullet in the pipeline, and you have to make a choice—fast—about where you are going to focus. Imagine the situation at Nokia: a deep recession dampening demand for its products across the board, losses in some of its core businesses, failure to adequately penetrate emerging growth markets, leadership instability, and a collapsing share price. Oh, sorry, I'm not talking about the Nokia of 2011. I'm talking about the Nokia of the late 1980s, when the embattled company was so down on its luck that its leaders took the humiliating step of shopping the company to Swedish rival Ericsson, only to be turned down.

Speaking to me some years later, Matti Alahuhta, one of the executive team members who participated in what eventually became a spectacular turnaround, said, "You know, back then it was almost easy. We had no other choice." The company decided to pin its hopes on its nascent telecommunications business, depending on assets from previous investments in computerization and communication technologies and the acquisition of the previous state-owned telecom monopolies. It shed everything else. Rubber boots, cable manufacturing, the other industrial businesses, the TV business—gone, gone, and gone. This is the nature of disengagement when the core business is on the brink of becoming irrelevant.

But of course, you could write a similar story about Nokia today, a company that I've studied, worked with, and watched for many years. Like many people, I was very admiring when I first

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started interacting with it in 2000: The company's success was absolutely amazing, as it had grown with the mobile-handset category in a spectacular manner for some time. But as I began to spend more time with the company, first in its Choices program for the Nokia Ventures Organization, and later on in a number of its management programs, I began to be concerned. Its venturing process, which I had long held up as a fantastic example (and studied, with results published in several academic articles), seemed to be losing senior executive support. Many talented people left upon the appointment of a new CEO oriented more toward numbers than products. And although Nokia was growing like gangbusters in India and China, it was nowhere in the United States.

Illustration: © Jonathan McHugh/Ikon Images/Corbis

STEPHEN ELOP'S BIG DISENGAGEMENT DECISION AT NOKIA WAS TO DROP DEVELOPMENT OF NOKIA'S OPERATING SYSTEM, MEEGO, AND INSTEAD ADOPT MICROSOFT'S WINDOWS 7 SOFTWARE. . . . ELOP MADE THE DECISION TO STOP THE DEVELOPMENT EFFORT AND REPURPOSE THE TALENT TO MORE FUTURE-ORIENTED PROJECTS.

As a veteran Nokia watcher and industry expert said to me, "Their biggest problem is complacency." Leaning back over his desk, and perfectly mimicking the body language of a fair number of Nokia leaders at the time, he knitted his hands together and said, "In fact, they are actually complacent about their attitude toward complacency." At the time, I laughed. I laughed again when working with the company in 2001. There I was in a frozen hotel in Oulu, Finland, with a bunch of Nokia engineers. The subject of the newly released iPod came up. The reaction was entirely dismissive. "That?" they said. "It's just a hard drive built on older technology in a fancy case." I stopped working actively with the company around 2006, but by this time warning bells rang every time I learned afresh about its management decisions.

In 2007, a colleague and I decided for teaching purposes to drop Nokia as an exemplary innovator. Now it is 2013, and the company is once again staring at the brink. Stephen Elop, the CEO who Nokia brought over from Microsoft's Office business, faces almost exactly the same challenge that the company leaders of the late 1980s faced: What should be jettisoned so that the company can move onto its next growth trajectory?

Elop's big disengagement decision at Nokia was to drop development of Nokia's operating system, MeeGo, and instead adopt Microsoft's Windows 7 software. The decision was not arrived at lightly—the Linux-based MeeGo had been touted as the company's answer to Android and Apple smartphones and was to play a part in saving the company. A review of the product conducted by Elop and chief development officer Kai Oistämö, in which they interviewed twenty people deeply involved with the MeeGo project, resulted in a sad, stunning conclusion: At the best rate of progress, the company would introduce only three MeeGo-powered handsets before 2014, far too late to address the crisis besetting Nokia's core business. Elop made the decision to stop the development effort and repurpose the talent to more future-oriented projects. Using Apple's operating system was out of the question; working with Google's Android operating system would fail to position Nokia for leadership (and provide competition for Nokia's Navteq unit). That left Microsoft. Although the software company's share of the U.S. smartphone market was extremely small, reviews of its operating system were favorable. More important, Microsoft had strong alliances with corporations and distribution partners that could help Nokia gain traction in its long-lusted-after American markets.

Will the plan work? I don't know. By the time a company is wrestling with this form of disengagement, there are many things that can go wrong, and Nokia has lost a lot of time. On the other hand, just as the company realized in an earlier era, there was very little choice. By October 2011, the first smartphones resulting from the alliance were on the market to critical acclaim, with headlines blaring "Nokia Gets Back in the Game."

Garage Sale: The Business Has Value, but It Isn't for Us Anymore

Some businesses without a particular advantage still have good growth or cash-flow potential, but not with the overhead cost structure or margins to which the parent company is accustomed. The way pharmaceutical companies treat off-patent drugs reflects this dilemma—whereas a generics drug business may look unattractive to an organization such as Merck or Novartis, low-cost global competitor Teva finds it brilliantly appealing. Similarly, Verizon saw the phone-directory business as a route to commodity hell, but two private-equity firms eagerly snapped it up, attracted by the business's consistent cash flows.

Under CEO Ivan Seidenberg, Verizon pursued an aggressive strategy of moving out of slow-growth core businesses such as landlines and into more competitive and risky areas including wireless and data services. Prodded to some extent by my Columbia Business School colleague Bruce Greenwald, as early as 2001, Seidenberg was anticipating the fading of existing advantages, expecting annual revenues over $100 billion, with 35 percent coming from wireless and 20 percent from data. He also anticipated that traditional voice revenues would represent only about 35 percent of the total book of business, down from 60 percent. Since then, the company has shed slow-growth units (even those with solid cash flows) such as phone directories. In their place—and using the cash these spun-off businesses yielded—Verizon has made massive investments in such new areas as fiber-optic technology to enable it to compete with cable companies in offering television and Internet services. Seidenberg did what many companies fail to do: make aggressive investments in the company's future while the core business was still generating substantial cash. And Verizon weathered years of investment-community abuse before its bold moves paid off.

Fire Sale: A Garage Sale in a Hurry

For a management educator, one of the most frustrating things about the temporary-advantage phenomenon is that no sooner do you find a great example of a company that is doing something really interesting, strategically, than that company falls victim to the stings of eroding advantage. The later poor performance then completely discredits the interesting idea they began with. That's a bit the way I feel about Mexican cement producer CEMEX. Not that I'm alone—many management researchers have written admiringly of the plucky regional firm that through innovation, clever use of digital technologies, and aggressive M&A activity rose to become a global player and is today the world's third-largest cement company.

Unfortunately, some poorly timed acquisitions and the global construction slowdown have created a real black eye for CEMEX, with a near bankruptcy in 2009 and losses in the third quarter of 2011 alone totaling $821.7 million. With the core business under threat, CEMEX proceeded with a substantial disengagement of so-called noncore assets, to the tune of $1 billion's worth by the end of 2012, to reduce debt and meet financing covenants. Lorenzo Zambrano, CEMEX's CEO, has thrown down the gauntlet for businesses wishing to remain within the corporate parent's purview: Earn 10 percent return on capital, or you are on the block. On the list are quarries, assets held in joint ventures, real estate, and other idle assets that don't produce earnings before interest, taxes, depreciation, and amortization.

Unlike the more modulated asset disposals of the previous category, such fire sales are often made under significant duress as investors and analysts, armed with metaphorical pitchforks, put pressure on management to stem the losses, focus, and create a compelling story for why the firm is going to get out of its rut. As my friend and colleague Harry Korine has often pointed out, activist investors can sometimes provide a pivotal push to a management team that is reluctant to make some tough choices in this regard.

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Even when something is in an end-of-life stage, there are often important constituents who are still depending on it. A company at that point must figure out some way of shrinking the business to the right size while providing appropriate support to the customers and other stakeholders who may be left behind.

Run-off: A Declining Technology or Capability, but Someone Still Wants It

Even when something is in an end-of-life stage, there are often important constituents who are still depending on it. A company at that point must figure out some way of shrinking the business to the right size while providing appropriate support to the customers and other stakeholders who may be left behind. Often, these are niche customers who are relatively price-insensitive and have a deep need.

Companies often develop a special business unit just to focus on keeping those capabilities alive. Telecommunications manufacturer Avaya, for example, maintains what is called a "custom engineering" unit, which basically keeps capabilities on the shelf but which can reinvigorate them when they seem relevant once more to a customer's problem or retire them when the customer no longer needs support. Senior VP Mohamad Ali explains the mechanism the company uses for "keeping certain capabilities alive." After early adopters have agreed to purchase a given solution, he says, "You can't just kill it and leave your customers in the lurch."

He gives an example of a product the company had developed for Citibank in Japan, developing what it terms a "thin call" solution in which customers can interact with a teller remotely, using a phone and a video feed. As he puts it: "Let's say we decide to kill thin call. Citibank isn't going to like it if we abandon them. So we put it in the custom engineering group. As long as Citibank is a customer, we'll continue to support it." The custom engineering group is also a place in which Avaya keeps people and know-how accessible, even if it doesn't draw on them for an immediate product. This illustrates two principles for effective disengagement: (1) that you don't lose key capabilities because a business ends, and (2) that stakeholders who are adversely affected by your decision to stop doing something are made whole.

Privately held GDCA provides a fascinating example of a company that benefits from product obsolescence by allowing client firms to sunset older technologies without abandoning commitments to key customers. When mainstream manufacturers of computer equipment (such as boards) respond to technological improvements and end-of-product-life decisions by getting rid of older equipment and filling their factories with shiny new machines, they create enormous problems for manufacturers of precision medical, military, and industrial equipment who have embedded the boards in their own products. When the components are changed, this can necessitate product redesigns, which in turn can trigger the need for a renewed round of qualifications and a certification that the equipment will work properly. With end-of-life situations occurring with greater frequency, the previous solution of simply buying up enough of the old boards to meet expected demand was proving expensive and unwieldy.

Into this breach stepped GDCA, which counterintuitively went into the business of manufacturing obsolete board designs to guarantee downstream customers that they could continue to buy the exact boards embedded in their designs. Subscribers turn to GDCA when an original manufacturer discontinues making a board. The company then transfers the technology from the original manufacturer to its own engineering group, stores spares, produces more units if necessary, provides repairs, and, when the customer eventually decides it is ready to move on, closes the program.

So there we have the principles of healthy disengagement. First, identify the warning signs. Often, these are qualitative leading indicators rather than quantitative lagging ones. Next, create a way for the import of the numbers to be recognized. Then, once the decision has been made, determine the situation you are in and design the disengagement strategy that makes the most sense.

Conventional budgeting and planning processes are unlikely to be of much help in a transient-advantage context. The decision to exit a business and to implement that exit effectively requires the ability to break through budget logjams and effectively move resources to other places. ■

RITA GUNTHER MCGRATH is a professor at Columbia Business School and dean of the Fellows of the Strategic Management Society. Adapted from *The End of Competitive Advantage: How to Keep Your Strategy Moving as Fast as Your Business* (Harvard Business Review Press). ©2013

LETTING GO

WHEN AND HOW TO DROP A BUSINESS THAT ISN'T WORKING ANYMORE.

BY RITA GUNTHER MCGRATH

TEXTS ON STRATEGY AND INNOVATION ARE FULL OF GREAT IDEAS OF NEW THINGS THAT LEADERS SHOULD DO. BUT, LAMENTED A SENIOR EXECUTIVE I WAS WITH RECENTLY, "THERE AREN'T ANY TEXTBOOKS ON WHAT TO *STOP* DOING!" IN A WORLD OF TEMPORARY ADVANTAGE, STOPPING THINGS—EXITING DECLINING ADVANTAGES—IS EVERY BIT AS CRITICAL AS STARTING THINGS. ACTIVITIES NEED TO STOP BECAUSE THEY CAN NO LONGER DEMONSTRATE GOOD GROWTH POTENTIAL, OR PERHAPS COMPETITORS HAVE MADE THEM A COMMODITY, OR PERHAPS THEY SIMPLY HAVE FEW GROWTH PROSPECTS.

Growth outlier firms—those rare companies that have maintained steady growth despite industry upheaval—use a process of continuous small changes to avoid having to make more substantive exit and disengagement decisions. But not all firms are so fortunate, and there are occasions in which a more radical disengagement is simply necessary. This could be because a declining business drops off faster than expected (as happened to Fuji Photo in the 1990s), because markets change in a radical way (as happened to the smartphone business with the introduction of the iPhone), or simply because a firm lingers a little too long in the "exploit" phase and didn't reconfigure.

Evidence that a business or business model is going into decline is usually quite clear long before it creates a corporate crisis. If one is interested in looking, there is usually a lot of good information to be found. The trouble is that this information seldom turns up in the routine measurements that companies use to drive their businesses.

The first clear warning sign is when next-generation innovations offer smaller and smaller improvements in the user experience. If the people designing the next-generation offer are having trouble conceiving of new ways to differentiate

Illustration by Ikon Images/SuperStock

what you do, that's not good. If your scientists and engineering types are predicting that some new discovery will undermine the existing trajectory, that is also not good. For instance, RIM's BlackBerry email devices were the natural descendants of the first pagers, with keypads. The trajectory on which they developed didn't change much, adding mostly incremental touches such as colored screens, cameras, voice recorders, and some applications. Although customers appreciated these innovations, they were no longer excited by them.

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Finally, of course, you can consult your numbers. Usually, there's first a small decline in the sales growth rate. Then a flattening out. Then noticeably declining sales. Unfortunately, by the time a decline shows up in your performance numbers, it is usually too late to muster a proactive response, and you find yourself clambering back in a weaker position than you had been in.

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Hail Mary: The Core Business Is Under Immediate Threat, and It Sure Feels Like a Crisis

This is a situation you don't ever want to be in. The core business is under immediate market-share and margin threat, there's no silver bullet in the pipeline, and you have to make a choice—fast—about where you are going to focus. Imagine the situation at Nokia: a deep recession dampening demand for its products across the board, losses in some of its core businesses, failure to adequately penetrate emerging growth markets, leadership instability, and a collapsing share price. Oh, sorry, I'm not talking about the Nokia of 2011. I'm talking about the Nokia of the late 1980s, when the embattled company was so down on its luck that its leaders took the humiliating step of shopping the company to Swedish rival Ericsson, only to be turned down.

Speaking to me some years later, Matti Alahuhta, one of the executive team members who participated in what eventually became a spectacular turnaround, said, "You know, back then it was almost easy. We had no other choice." The company decided to pin its hopes on its nascent telecommunications business, depending on assets from previous investments in computerization and communication technologies and the acquisition of the previous state-owned telecom monopolies. It shed everything else. Rubber boots, cable manufacturing, the other industrial businesses, the TV business—gone, gone, and gone. This is the nature of disengagement when the core business is on the brink of becoming irrelevant.

But of course, you could write a similar story about Nokia today, a company that I've studied, worked with, and watched for many years. Like many people, I was very admiring when I first started interacting with it in 2000: The company's success was absolutely amazing, as it had grown with the mobile-handset category in a spectacular manner for some time. But as I began to spend more time with the company, first in its Choices program for the Nokia Ventures Organization, and later on in a number of its management programs, I began to be concerned. Its venturing process, which I had long held up as a fantastic example (and studied, with results published in several academic articles), seemed to be losing senior executive support. Many talented people left upon the appointment of a new CEO oriented more toward numbers than products. And although Nokia was growing like gangbusters in India and China, it was nowhere in the United States.

STEPHEN ELOP'S BIG DISENGAGEMENT DECISION AT NOKIA WAS TO DROP DEVELOPMENT OF NOKIA'S OPERATING SYSTEM, MEEGO, AND INSTEAD ADOPT MICROSOFT'S WINDOWS 7 SOFTWARE. . . . ELOP MADE THE DECISION TO STOP THE DEVELOPMENT EFFORT AND REPURPOSE THE TALENT TO MORE FUTURE-ORIENTED PROJECTS.

Illustration: © Jonathan McHugh/Ikon Images/Corbis

As a veteran Nokia watcher and industry expert said to me, "Their biggest problem is complacency." Leaning back over his desk, and perfectly mimicking the body language of a fair number of Nokia leaders at the time, he knitted his hands together and said, "In fact, they are actually complacent about their attitude toward complacency." At the time, I laughed. I laughed again when working with the company in 2001. There I was in a frozen hotel in Oulu, Finland, with a bunch of Nokia engineers. The subject of the newly released iPod came up. The reaction was entirely dismissive. "That?" they said. "It's just a hard drive built on older technology in a fancy case." I stopped working actively with the company around 2006, but by this time warning bells rang every time I learned afresh about its management decisions.

In 2007, a colleague and I decided for teaching purposes to drop Nokia as an exemplary innovator. Now it is 2013, and the company is once again staring at the brink. Stephen Elop, the CEO who Nokia brought over from Microsoft's Office business, faces almost exactly the same challenge that the company leaders of the late 1980s faced: What should be jettisoned so that the company can move onto its next growth trajectory?

Elop's big disengagement decision at Nokia was to drop development of Nokia's operating system, MeeGo, and instead adopt Microsoft's Windows 7 software. The decision was not arrived at lightly—the Linux-based MeeGo had been touted as the company's answer to Android and Apple smartphones and was to play a part in saving the company. A review of the product conducted by Elop and chief development officer Kai Oistämö, in which they interviewed twenty people deeply involved with the MeeGo project, resulted in a sad, stunning conclusion: At the best rate of progress, the company would introduce only three MeeGo-powered handsets before 2014, far too late to address the crisis besetting Nokia's core business. Elop made the decision to stop the development effort and repurpose the talent to more future-oriented projects. Using Apple's operating system was out of the question; working with Google's Android operating system would fail to position Nokia for leadership (and provide competition for Nokia's Navteq unit). That left Microsoft. Although the software company's share of the U.S. smartphone market was extremely small, reviews of its operating system were favorable. More important, Microsoft had strong alliances with corporations and distribution partners that could help Nokia gain traction in its long-lusted-after American markets.

Will the plan work? I don't know. By the time a company is wrestling with this form of disengagement, there are many things that can go wrong, and Nokia has lost a lot of time. On the other hand, just as the company realized in an earlier era, there was very little choice. By October 2011, the first smartphones resulting from the alliance were on the market to critical acclaim, with headlines blaring "Nokia Gets Back in the Game."

Garage Sale: The Business Has Value, but It Isn't for Us Anymore

Some businesses without a particular advantage still have good growth or cash-flow potential, but not with the overhead cost structure or margins to which the parent company is accustomed. The way pharmaceutical companies treat off-patent drugs reflects this dilemma—whereas a generics drug business may look unattractive to an organization such as Merck or Novartis, low-cost global competitor Teva finds it brilliantly appealing. Similarly, Verizon saw the phone-directory business as a route to commodity hell, but two private-equity firms eagerly snapped it up, attracted by the business's consistent cash flows.

Under CEO Ivan Seidenberg, Verizon pursued an aggressive strategy of moving out of slow-growth core businesses such as landlines and into more competitive and risky areas including wireless and data services. Prodded to some extent by my Columbia Business School colleague Bruce Greenwald, as early as 2001, Seidenberg was anticipating the fading of existing advantages, expecting annual revenues over $100 billion, with 35 percent coming from wireless and 20 percent from data. He also anticipated that traditional voice revenues would represent only about 35 percent of the total book of business, down from 60 percent. Since then, the company has shed slow-growth units (even those with solid cash flows) such as phone directories. In their place—and using the cash these spun-off businesses yielded—Verizon has made massive investments in such new areas as fiber-optic technology to enable it to compete with cable companies in offering television and Internet services. Seidenberg did what many companies fail to do: make aggressive investments in the company's future while the core business was still generating substantial cash. And Verizon weathered years of investment-community abuse before its bold moves paid off.

Fire Sale: A Garage Sale in a Hurry

For a management educator, one of the most frustrating things about the temporary-advantage phenomenon is that no sooner do you find a great example of a company that is doing something really interesting, strategically, than that company falls victim to the stings of eroding advantage. The later poor performance then completely discredits the interesting idea they began with. That's a bit the way I feel about Mexican cement producer CEMEX. Not that I'm alone—many management researchers have written admiringly of the plucky regional firm that through innovation, clever use of digital technologies, and aggressive M&A activity rose to become a global player and is today the world's third-largest cement company.

Unfortunately, some poorly timed acquisitions and the global construction slowdown have created a real black eye for CEMEX, with a near bankruptcy in 2009 and losses in the third quarter of 2011 alone totaling $821.7 million. With the core business under threat, CEMEX proceeded with a substantial disengagement of so-called noncore assets, to the tune of $1 billion's worth by the end of 2012, to reduce debt and meet financing covenants. Lorenzo Zambrano, CEMEX's CEO, has thrown down the gauntlet for businesses wishing to remain within the corporate parent's purview: Earn 10 percent return on capital, or you are on the block. On the list are quarries, assets held in joint ventures, real estate, and other idle assets that don't produce earnings before interest, taxes, depreciation, and amortization.

Unlike the more modulated asset disposals of the previous category, such fire sales are often made under significant duress as investors and analysts, armed with metaphorical pitchforks, put pressure on management to stem the losses, focus, and create a compelling story for why the firm is going to get out of its rut. As my friend and colleague Harry Korine has often pointed out, activist investors can sometimes provide a pivotal push to a management team that is reluctant to make some tough choices in this regard.

LORENZO ZAMBRANO, CEMEX'S CEO, HAS THROWN DOWN THE GAUNTLET FOR BUSINESSES WISHING TO REMAIN WITHIN THE CORPORATE PARENT'S PURVIEW: EARN 10 PERCENT RETURN ON CAPITAL, OR YOU ARE ON THE BLOCK.

Even when something is in an end-of-life stage, there are often important constituents who are still depending on it. A company at that point must figure out some way of shrinking the business to the right size while providing appropriate support to the customers and other stakeholders who may be left behind.

Run-off: A Declining Technology or Capability, but Someone Still Wants It

Even when something is in an end-of-life stage, there are often important constituents who are still depending on it. A company at that point must figure out some way of shrinking the business to the right size while providing appropriate support to the customers and other stakeholders who may be left behind. Often, these are niche customers who are relatively price-insensitive and have a deep need.

Companies often develop a special business unit just to focus on keeping those capabilities alive. Telecommunications manufacturer Avaya, for example, maintains what is called a "custom engineering" unit, which basically keeps capabilities on the shelf but which can reinvigorate them when they seem relevant once more to a customer's problem or retire them when the customer no longer needs support. Senior VP Mohamad Ali explains the mechanism the company uses for "keeping certain capabilities alive." After early adopters have agreed to purchase a given solution, he says, "You can't just kill it and leave your customers in the lurch."

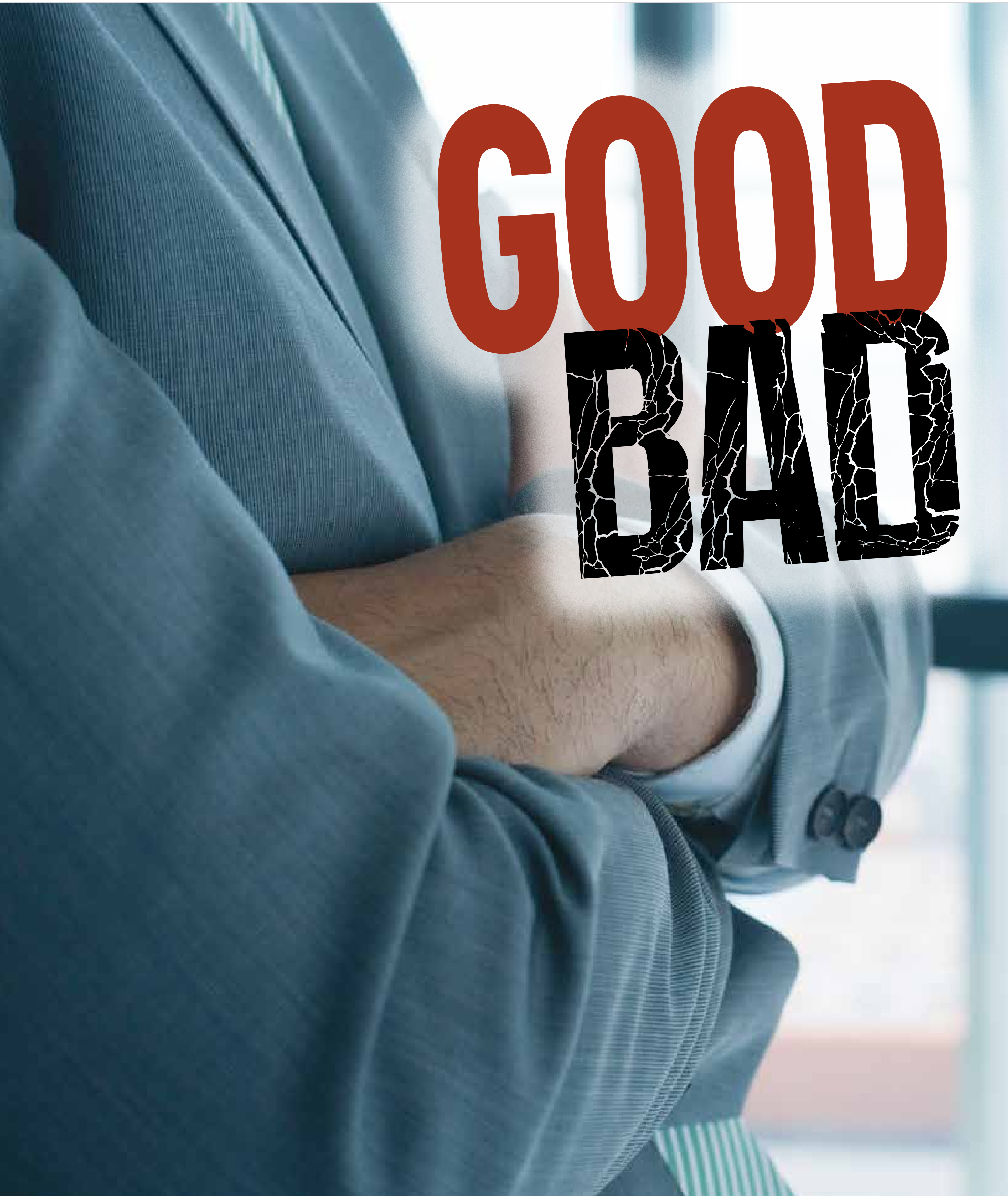
He gives an example of a product the company had developed for Citibank in Japan, developing what it terms a "thin call" solution in which customers can interact with a teller remotely, using a phone and a video feed. As he puts it: "Let's say we decide to kill thin call. Citibank isn't going to like it if we abandon them. So we put it in the custom engineering group. As long as Citibank is a customer, we'll continue to support it." The custom engineering group is also a place in which Avaya keeps people and know-how accessible, even if it doesn't draw on them for an immediate product. This illustrates two principles for effective disengagement: (1) that you don't lose key capabilities because a business ends, and (2) that stakeholders who are adversely affected by your decision to stop doing something are made whole.

Privately held GDCA provides a fascinating example of a company that benefits from product obsolescence by allowing client firms to sunset older technologies without abandoning commitments to key customers. When mainstream manufacturers of computer equipment (such as boards) respond to technological improvements and end-of-product-life decisions by getting rid of older equipment and filling their factories with shiny new machines, they create enormous problems for manufacturers of precision medical, military, and industrial equipment who have embedded the boards in their own products. When the components are changed, this can necessitate product redesigns, which in turn can trigger the need for a renewed round of qualifications and a certification that the equipment will work properly. With end-of-life situations occurring with greater frequency, the previous solution of simply buying up enough of the old boards to meet expected demand was proving expensive and unwieldy.

Into this breach stepped GDCA, which counterintuitively went into the business of manufacturing obsolete board designs to guarantee downstream customers that they could continue to buy the exact boards embedded in their designs. Subscribers turn to GDCA when an original manufacturer discontinues making a board. The company then transfers the technology from the original manufacturer to its own engineering group, stores spares, produces more units if necessary, provides repairs, and, when the customer eventually decides it is ready to move on, closes the program.

So there we have the principles of healthy disengagement. First, identify the warning signs. Often, these are qualitative leading indicators rather than quantitative lagging ones. Next, create a way for the import of the numbers to be recognized. Then, once the decision has been made, determine the situation you are in and design the disengagement strategy that makes the most sense.

Conventional budgeting and planning processes are unlikely to be of much help in a transient-advantage context. The decision to exit a business and to implement that exit effectively requires the ability to break through budget logjams and effectively move resources to other places. ■


GOOD
BAD

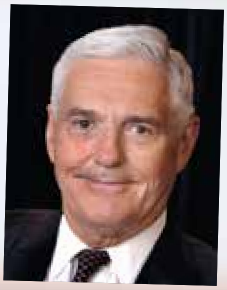
MATTHEW BUDMAN is editor-in-chief of *TCB Review.*

LEADERS, LEADERS

BY MATTHEW BUDMAN

CAR GUY BOB LUTZ SORTS 'EM OUT.

BOB LUTZ HAS SPENT CLOSE TO HALF A CENTURY WORKING FOR AND ALONGSIDE THE MEN RUNNING MUCH OF THE AUTO INDUSTRY—AND HE'S KEPT TRACK OF WHAT STRATEGIES WORK AND WHICH DON'T, WHICH LEADERSHIP STRATEGIES ARE EFFECTIVE AND WHICH AREN'T, WHICH CEO FOIBLES ARE IRRITATING AND WHICH ARE FATAL. FOR HIM, THERE'S NOTHING THEORETICAL ABOUT LEADERSHIP—IT'S EMBODIED BY REAL-LIFE PEOPLE TASKED WITH GETTING THINGS DONE AND INSPIRING FOLLOWERS.



In *Icons and Idiots: Straight Talk on Leadership* (Portfolio), Lutz profiles eleven men who influenced him and his career, from a high-school teacher and a Marine staff sergeant to former CEOs of BMW, Ford, Chrysler, and GM. He doesn't go easy on those who are still alive—or those who are no longer with us. Indeed, Lutz rarely pulls punches aimed in any direction (on jailed Exide CEO Art Hawkins: "It's hard to say any nice things about Art"), which makes his anecdotes and reminiscences more pointed than most. That's important to him: For a hard-nosed lifelong executive, he seems committed to making business books entertaining. "My father was still alive when I wrote my first business book, and he said, 'Congratulations and all that, but I was really sort of hoping for something of somewhat higher intellectual content, something that would make a contribution to the science of business.' I said that's not the kind of book I want to write—I want to either educate while entertaining or entertain while educating. If a book isn't fun to read, why bother?"

Lutz, 81, spoke by phone from his Detroit-area home, in his first interview for this magazine since we spoke with him for a Q&A back in 1999.

YOU'VE WORKED WITH MANY DIFFERENT TYPES OF LEADERS, AND YOU FIND STRENGTHS AND WEAKNESSES IN EACH. IS IT POSSIBLE TO GENERALIZE AND SUGGEST WHICH TYPE IS MOST EFFECTIVE IN WHICH SITUATION?

There's no such thing as an omnivalent leader who is able to direct a large organization in all circumstances. I know that I would be a good leader in maybe 75 to 80 percent of circumstances that a company finds itself in, but, for instance, if a company is facing Chapter 11 and needs to restructure radically and quickly, get rid of debt, negotiate with creditors, and stop payments on a lot of stuff, that's something I'm not suited for. The company needs a work-out specialist, somebody like Kevyn Orr, the Washington bankruptcy lawyer who has been appointed as the emergency manager of Detroit. It's like an emergency-room physician who says, "If this patient is gonna live, we're going to have to amputate both legs and an arm." I'm better at building things out and creating new products.

I think the people who are heavily financially oriented and brilliant balance-sheet analysts are probably best in banks, insurance companies, financial-services companies, and so forth. Then you've got leaders who are charming, who respect people, get along with everybody, and don't push—they're highly qualified to be university presidents. And then you've got your outgoing marketing types who are extremely aggressive, very willing to accept risk, and those are ideal people to lead companies that want rapid growth, but they need the checks and balances of a strong financial organization.

Leading an industrial company requires an interesting combination of traits: A person has to be aggressive, smart, and somewhat numerate. In my book *Car Guys vs. Bean Counters*, I wrote that a consumer-products company cannot be effectively run by nothing but finance people—you've got to have creative people who are passionate about the product, and the finance people have to come in behind to keep them on the right track and act as the brakes.

ONE OF OUR RECURRING THEMES IN THIS MAGAZINE IS THAT BIG COMPANIES HAVE BECOME TOO SPRAWLING AND DIVERSE TO GET A HANDLE ON, AND THE CEO JOB TODAY REQUIRES TOO MANY DIFFERENT SKILLS FOR ONE PERSON.

I agree. That's why a good CEO will not adopt an overly dictatorial style. That was the beauty of the relationship I had with Rick Wagoner at GM, who was without question the best balanced, most normal, easiest-going CEO I ever worked for. He never had "CEO disease"; he didn't care whether his airplane took off before the other airplanes. He didn't constantly scheme ways to get more pay, more options, more grants. He said, "We serve the shareholder. We're being paid adequately. The board will decide if it's time for more."

The one thing he lacked, when things got really tough, was that he found it difficult to tackle the really painful decisions. He was such a consensus-driven executive. He knew what he wanted, and he articulated what he wanted, but when the predictable resistance came, he was overly respectful of other people's opinions and would say, "Well, I still would like to do this, but if you all think it's not the right time or isn't what we should be doing, maybe we shouldn't." And then nothing would get done.

THAT'S AN UNCOMMON CRITICISM: THAT A CEO IS "OVERLY RESPECTFUL" OF OTHERS' VIEWS.

Listen, when you're running something and it's an emergency situation, that's when the pilot of the airplane or the captain of the ship says, "Everybody get out of my way—here's what we're doing."

ARE SOME PEOPLE WHO RISE TO LEADERSHIP POSITIONS SIMPLY BAD LEADERS, INEFFECTIVE IN *ANY* SITUATION?

I saw a lot of those people at Ford. They would have great educations, dress well, speak well, behave exceptionally well in meetings, were always well prepared, and have answers for everything; they would be promoted so fast that they were never measurable in any one job; they'd spend eighteen months in one job before their next promotion. And they'd finally get into a position where I was either working for them or working with them, and I'd ask myself, "How did this person *ever* get up to a position like this?" And the answer was: looks good, sounds good, faces upward brilliantly.

OF COURSE, NONE OF THE ELEVEN LEADERS YOU PROFILE IS QUITE SO SMOOTH. IN YOUR EXPERIENCE, ARE PEOPLE FAIRLY CONSISTENT IN THEIR PERSONAL AND PUBLIC LIVES? THAT IS, IF THEY HAVE PERSONALITY QUIRKS, DO THOSE COME THROUGH IN THEIR LEADERSHIP STYLE?

In the cases of Phil Caldwell at Ford and Ralph Mason at Opel, very definitely. Red Poling at Ford and Eberhard von Kuenheim at BMW, sure. Von Kuenheim was an extremely smart person, but spending some of his youth as a displaced person in the Soviet zone of Germany, and having to escape, honed his ruthless survival skills and brought him up with a deep distrust of what other people say and do. It made him a control freak and very hard to work for. But he was a brilliant CEO; he was in office at BMW for over twenty years, the longest-serving CEO in automotive history, and took BMW from roughly 200,000 units a year to two million units a year.

YOU WRITE THAT "MOST SUCCESSFUL LEADERS ARE MENTALLY AND EMOTIONALLY ASKEW. . . . IT'S PRECISELY THAT THEY ARE IMPATIENT, STUBBORN, OPINIONATED, UNSATISFIED, AND DOMINEERING THAT MAKES THEM SUCCESSFUL." DO PEOPLE LOWER DOWN IN THE ORGANIZATION TEND TO UNDERSTAND THAT? MY ASSUMPTION IS THAT THOSE OUTSIDE THE COMPANY SEE ONLY THE SUCCESS AND THOSE INSIDE SEE ONLY THE UNPLEASANT PERSONALITY.

You're absolutely correct. At Ford, we would regale each other with Phil Caldwell stories—and I didn't even put all of them in the book! We would say, "Jesus, what a nutcase—if only the outside world knew what this guy behaves like in the company." And yet the outside world only saw a measured, carefully controlled, thoughtful, introspective, intelligent leader. He did a brilliant job of running a shareholders meeting. In many ways, he was a hugely successful CEO.

> **"Leading an industrial company requires an interesting combination of traits:** A person has to be aggressive, smart, and somewhat numerate.

Steve Jobs, of course, was the ultimate skewed leader. Everyone who knew him says he was extremely difficult to get along with, very volatile, didn't listen, ran roughshod over everybody, and was an absolutely impossible person.

BUT EVEN THOUGH A LOT OF TOP LEADERS ARE QUIRKY, YOU NOTE, BOARDS OFTEN PLAY IT SAFE.

We tend to focus too much on behavioral traits and not enough on results. Look at my career: If Chrysler had looked at the results, they would have said, "How can we *not* make this guy the leader of the company? He gets the costs down and the revenue up. The products are brilliant. What more do you want?" Instead, they said, "Yeah, but the guy's a little off the wall at times." Boards tend to select leaders who will minimize risk—risk of corporate embarrassment, of misbehavior, of having to restate earnings because someone wasn't diligent enough about accounting. Lee Iacocca wouldn't have made CEO at Ford; Henry Ford once sat him down and said, "Look, Lee, I just don't like you, and I don't see you leading the company."

If Iacocca hadn't left Ford, he never would have been a CEO. He made it to the top at Chrysler because Chrysler was in a similar condition as Apple was when they called Steve Jobs back. They just wanted an aggressive guy—never mind the personality and the profanity—who could get the job done. In a stable situation, the Chrysler board would have picked somebody else.

IN THE BOOK'S APPENDIX, YOU EVALUATE IACOCCA—AND YOUR OTHER TEN LEADERS—VIA A COMPLEX FORMULA. DON'T MOST PEOPLE SEE LEADERSHIP AS, TO USE YOUR PHRASE, "SUBJECTIVE, QUALITATIVE, AND EMOTIONAL"? CAN IT BE OBJECTIVELY QUANTIFIED?

Any rating scale is going to be subjective, and the weights assigned to the various measurement parameters are especially subjective. A more prudent or more financially oriented executive would probably pick an entirely different rating scale, with many more financial parameters listed. Somebody who came up through human resources would probably place a much higher emphasis on diversity performance and how many females he promoted into senior jobs.

HAVE YOU HEARD SPECIFIC QUIBBLES WITH YOUR SCORING?

One reviewer was all upset that all of my subjects are men. I can't help it! I've never worked for a woman.

HOW ABOUT FROM ANY OF THE CEOS YOU DISCUSS?

Not yet. A lot of these stories happened a long time ago, so some of them are dead. The lawyers at Penguin raised all kinds of, "Can you prove this?" questions about the book. "Do you have notes? Are there witnesses?" They were really, really worried, because my answers were no, no, and no. Then they asked, "Who's dead?" and I gave them the list, and they breathed a huge sigh of relief. It's not nice to be happy someone's dead, but in this case we are.

Eberhard von Kuenheim, though, is alive; he's 84 and, last I heard, in pretty good health. He'll read the book, and I think parts of it will piss him off. He and I had a conversation some time ago, when I no longer worked for BMW and we'd occasionally get together for dinner in London or something like that, and he said, "It's really a shame you and I didn't get along better when I was CEO and you were my executive VP for sales and marketing; I ascribe it to a lack of maturity on both sides." He was in his early 40s when he started at BMW, and I was just barely 40. For the positions we held, we both probably needed seasoning; I know I did.

LAST QUESTION: YOU WRITE, "THOSE READERS WHO HAVE SERVED UNDER ME MAY WISH TO DO AN EVALUATION OF THE AUTHOR." WERE YOU ABLE TO RESIST DOING A SELF-ASSESSMENT?

I thought about doing that but decided that if I did an honest job, people would say, "This guy has an extraordinarily high opinion of himself." I'd score fairly well, but I certainly have my idiosyncrasies too.

SO YOU DID AN EVALUATION BUT DIDN'T INCLUDE IT IN THE BOOK.

I did one mentally. But I'm sure that some of the people who worked for me at Ford, Chrysler, GM, Exide, and BMW will send me an assessment, and that'll make for very interesting reading. You're never too old to learn. ■

WHERE WILL THE JOBS GO

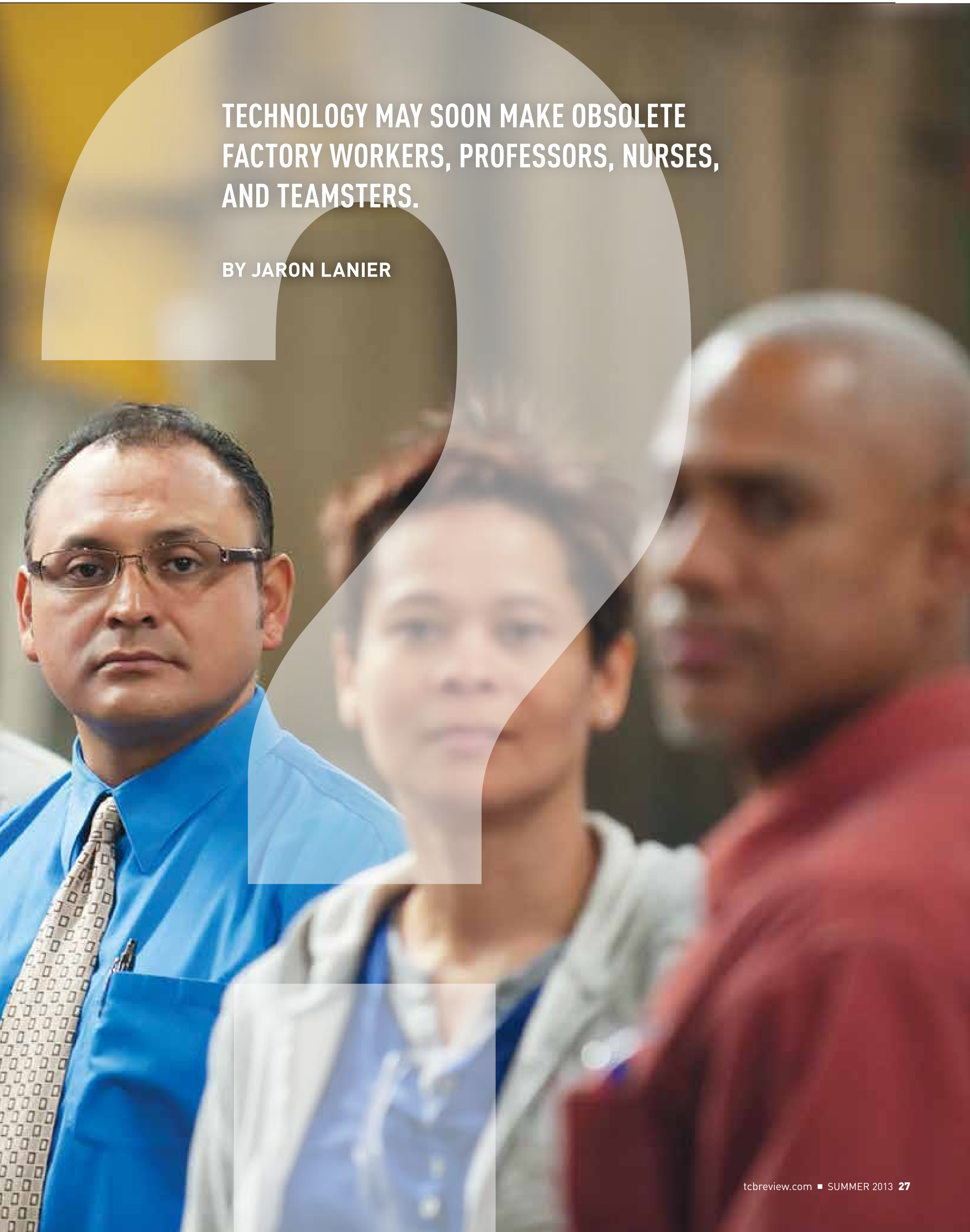
WHEN IT COMES TO THE FUTURE OF MANUFACTURING JOBS, THE KEY QUESTION ISN'T, "HOW MUCH WILL BE AUTOMATED?" IT'S HOW WE'LL CONCEIVE OF WHATEVER *CAN'T* BE AUTOMATED AT A GIVEN TIME. EVEN IF THERE ARE NEW DEMANDS FOR PEOPLE TO PERFORM NEW TASKS IN SUPPORT OF WHAT WE PERCEIVE AS AUTOMATION, WE MIGHT APPLY ANTIHUMAN VALUES THAT DEFINE THE NEW ROLES AS NOT BEING "GENUINE WORK." MAYBE PEOPLE WILL BE EXPECTED TO "SHARE" INSTEAD. SO THE RIGHT QUESTION IS, "HOW MANY JOBS MIGHT BE LOST TO AUTOMATION IF WE THINK ABOUT AUTOMATION THE WRONG WAY?"

The particular way in which we are digitizing economic and cultural activity will ultimately shrink the economy while concentrating wealth and power in new ways that are not sustainable. And that mistake is setting us up for avoidable traumas, as machines get much better in this century.

One of the strange, tragic aspects of our technological moment is that the most celebrated information gadgets, like our phones and tablets, are made by hand in gigantic factories, mostly in southern China, and largely by people who work insanely hard in worrisome environments. Looking at the latest advances in robotics and automated manufacturing, it's hard not to wonder when the labors of these hordes of new potential Luddites might become suddenly obsolete.

In this case, even once the technology becomes available, I suspect politics will slow it down a little. It's hard to imagine China deciding to throw much of its own population into unemployment. It is still a centrally planned society to a significant degree. It's hard, even, to imagine one of China's neighbors doing it. Would an aging Japan automate its factories to undercut China? Seems like a significant risk.

JARON LANIER is a computer scientist, composer, visual artist, and author. Adapted from *Who Owns the Future?* (Simon & Schuster) ©2013



TECHNOLOGY MAY SOON MAKE OBSOLETE FACTORY WORKERS, PROFESSORS, NURSES, AND TEAMSTERS.

BY JARON LANIER

But somebody somewhere may find the motivation. Maybe a low-population but capital-rich Persian Gulf nation worried about the post-oil future will fund gigantic automated factories to undercut China in the production of consumer electronics. It might even happen in the United States, which has ever-fewer manufacturing jobs to protect anyway.

What would it look like to automate manufacturing? Well, the first word that comes to mind is *temporary*. And the reason is that the act of making manufacturing into a more automated technology would inherently move it a step closer to being a "software-mediated" technology. When a technology becomes software-mediated, the structure of the software becomes more important than any other particularity of the technology in determining who will win the power and the money when the technology is used. Making fabrication software-mediated turns out to be a step toward making the very notion of a factory, as we know it, obsolete.

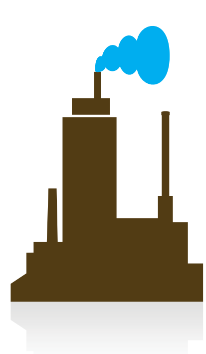
A FACTORY IN EVERY HOME?

To see why, consider how automated manufacturing might advance. Automated milling machines and similar devices are already ubiquitous for shaping parts, such as forms for molds; robotic arms to assemble components are less common but still present in certain applications, such as assembling parts of large items like cars and big TVs. Detail work (like fitting touchscreens into the frame of a tablet) is still mostly done by hand, but that might change soon. At first, manufacturing robots will be expensive, and there will be plenty of well-paying jobs created to operate them, but eventually they will become cheap and the data to operate them might then be crowdsourced, sending manufacturing down the same road traveled by the recorded music industry.

Consider 3D printing, which in a matter of months has graduated from academic theory to hobbyist dream to Staples inventory item and, in the form of home-printed guns that can fire, security threat. A 3D printer looks a little like a microwave oven; through the glass door, you can watch roaming robotic nozzles deposit various materials to form a product as if by magic. You download a design from the 'net, as if you were downloading a movie file, send it to your 3D printer, and come back after a while. There, before you, is a physical object, downloaded from afar. There are fledgling experiments with printers that realize physical products, including working electronic components. A chip is just a pattern deposited by something like a printing process to begin with; so is a flat display. In theory, it ought to be possible, in the not-so-distant future, to print out a working phone or tablet.

The key point: Once a 3D printer can be deployed in a factory, it might just as well be placed close to where the product will be used.

MAKING FABRICATION SOFTWARE-MEDIATED TURNS OUT TO BE A STEP TOWARD MAKING THE VERY NOTION OF A FACTORY, AS WE KNOW IT, OBSOLETE.



Being able to make things on the spot could remove a huge part of humanity's carbon footprint: the transportation of goods. Instead of fleets of container ships bringing tchotchkes from China to our ports, we'll print them out at home, or maybe at the neighborhood print shop.

What will be distributed instead will be the antecedent "goops." These are the substances squirted out by the printer's nozzles. Right now, there are about one hundred goops in use by 3D printers. For instance, a particular goop might harden into the kind of tough plastic found in car interiors. It is too early to say what goops will be in use in the future. Nor do we know how many different goops will be needed. Maybe a single supergoop would go a long way. Perhaps a suspension including graphene particles will be configurable into a variety of components such as nanotube digital circuits, battery layers, and tough carbon-fiber outer shells.

Will there be goops delivered by pipes to the home? Goop trucks that make rounds to refill printers once a week? Goop refill kits sold by Amazon and delivered by parcel? Little blimps that alight on your roof to refill your home printer? This we do not know. At any rate, a new infrastructure will be needed to get goops to printers. Expect goop to be as overpriced as ink for home photo printers is today.

The real magic might come about because of the transformation of recycling. Right now, when we throw something away, no information is packaged with that thing that described how it could best be disassembled into its constituents in order that they might be reused. This is a great inefficiency. We rely on human labor to very approximately assess what we toss away so that it can be recycled. This happens when we choose the right trash bin at the cafeteria, or when poor people pick over garbage dumps.

Once 3D printers commonly create objects, the nature of recycling will transform utterly. An object that had been printed will be remembered in the cloud. There will be "deprinters" that accept objects that are no longer wanted, like the previous year's tablet. By referring to the original printing specification, always retrievable online, it will be possible to unravel the object back to its original goops with precision. Instead of melting it down, little nozzles with specialized solvents and cutting tools will separate each striation that originated from a different antecedent goop. The process will not be perfect, since the laws of thermodynamics cannot be revoked, but it will be *hugely* more efficient than what we do today.

Between the obsolescence of shipping and an extreme increase in recycling precision, 3D printing could create a massive explosion of convenience and fun and, at the same time, vastly reduce humanity's carbon footprint and reliance on nonrenewable resources.

ONCE A 3D PRINTER CAN BE DEPLOYED IN A FACTORY, IT MIGHT JUST AS WELL BE PLACED CLOSE TO WHERE THE PRODUCT WILL BE USED.

DOESN'T SOMEONE HAVE TO MAKE THE PRINTERS?

Of course, we don't yet know about all the gotchas yet to come. But supposing that even some portions of the benefits appear, it certainly would be foolish to oppose this stream of progress. How could a liberal not like the smaller carbon footprint? How could a conservative not like the efficiency? And of course techies will be in love.

And yet the transformation will throw factory workers out of work in a massive wave. Will China be destabilized? As happened with the file-sharing of other things like music, the transformation of fabrication into a file-sharing phenomenon could happen very quickly.

When I explain this scenario, I often receive this response: "But someone still has to make the printers." Somehow it's hard to wrap our heads around a world in which the printers themselves are printed. You wouldn't go buy a 3D printer at Wal-Mart. Your neighbor would print your first one for you. They'd spread "virally," to use the usual metaphor.

Huge benefits on both a global and individual scale could appear, but coupled with a wave of supposed human obsolescence. I repeat that it's only "supposed" obsolescence, because all those files that are shared to describe objects to print have to come from somewhere.

In a world of efficient 3D printing and recycling, we might experience much, much faster turnaround in our material culture than we are able to easily conceive of today.

A guitarist might routinely print out a new guitar for every gig. Snobs might very well then decry that much of the design churn is stupid and pointless, just as critics might say the same about today's social-network kinetics. But if people are interested in finding the latest stupid cool guitar to fabricate for the day, there will be a stupid cool guitar designer out there who ought to be paid.

The most radical change in daily life might be associated with fashion and clothing. A home device will be able to print out clothes based on Internet designs, but also based on your body. The device would scan your body in three dimensions, just as Microsoft's Kinect input device does today. You'd see an outfit slinking about on your body before it exists. Everyone will be dressed exquisitely because every piece of clothing will be custom-fit.

Forget laundry. At the end of the day, you'll pop dirty clothes into the top of the device for recycling. Never wear the same dress twice. (Though there will no doubt also be a countertrend in which vintage and handmade clothing becomes ever more revered. This is what happened with vinyl records after music became networked.) Today, "cool hunters" comb impoverished neighborhoods, sniffing out fashion trends. In the future, kids in those neighborhoods should earn wealth for their fashion trendsetting.

NAPSTERIZING THE TEAMSTERS

Humans are terrible drivers. We kill each other in car accidents so frequently that the toll has become a more deadly problem than war or terrorism. It's one of our biggest sources of death and pain.

Could self-driving cars do better? Definitely. Researchers around the world have begun showcasing cars that are quite effective at driving themselves, and results from experiments thus far indicate that it is unlikely robots will ever drive as badly as people.

The effects would be wide-ranging. For instance, stoplights would generally go away. Cars would simply know when there's no other car coming, and no pedestrian, so they could just proceed through without stopping when there is no need. This would bring a huge gain in energy efficiency, since vehicles wouldn't have to accelerate from a stop nearly as often. City driving would become almost as efficient as freeway driving.

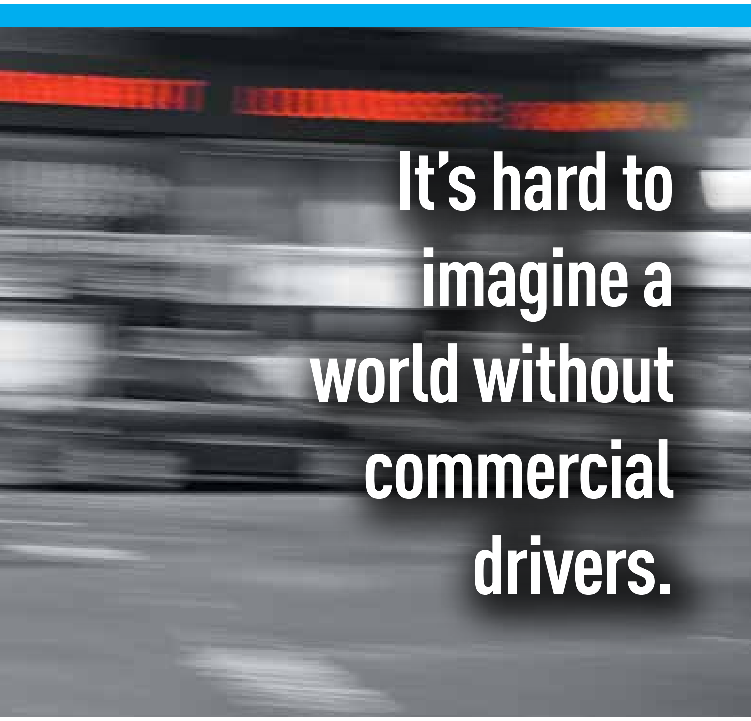
If cars could coordinate with each other, traffic jams might become nearly extinct. Instead of people engaging in tiny ego-wars to merge between lanes on the freeway, causing huge backups going miles back, cars would anticipate mergers and merge cleanly, taking full advantage of the hypothetical bandwidth of the freeway.

True, there will be gotchas, just as with 3D printing, and we can't yet know what they will be. When there is a screw-up, it could be a huge one. If a whole freeway of cars hit each other because of a snag, that would be a calamity on the order of a plane crash instead of an incident involving only a few people. That's conceivable should there be many cars connected together virtually, moving rapidly under a connected software system.

What sort of economic impact will self-driving vehicles bring? It could be catastrophic. A giant portion of the global middle classes works behind a wheel; many entered middle-class life as a taxi driver or truck driver. It's hard to imagine a world without commercial drivers. A traditional entry ramp into economic sustenance for fresh arrivals to big cities like New York would be gone; wave after wave of immigrants have driven New York taxis. And I'm trying to imagine the meeting when someone tries to explain to the Teamsters that nothing like their services will ever be needed again.

Both cabbies and truckers have managed to build up some legal heft over the years, so they'll be able to delay the

COULD SELF-DRIVING CARS DO BETTER? DEFINITELY. ... IT IS UNLIKELY ROBOTS WILL EVER DRIVE AS BADLY AS PEOPLE.



change—but not for long. For a while, there might be a compromise in which a Teamster or a cabbie sits there passively, along for the ride, perhaps to man a failsafe button. But young people won't expect that to last and won't seek it as a way of life. The world of work behind the wheel will drain away in a generation.

DEGREE VS. DOSSIER

The "creative classes," including recording musicians, journalists, and photographers, have drawn much of the attention paid to vanishing economic dignity, not to mention the significantly larger number of people who supported these types of creators, like studio musicians and editors, and enjoyed "good jobs" (meaning with security and benefits).

The real question is whether the felling of creative-class careers was an anomaly or an early warning of what is to happen to immeasurably more middle-class jobs later in this century.

For instance, higher education could be Napsterized and vaporized in a matter of a few short years. In the world of the new kind of network wealth, towering student debt has become yet another destroyer of the middle classes.

Why are we still bothering with higher education in the network age? We have Wikipedia and a world of other tools. You can educate yourself without paying a university. All it takes is discipline. Tuition pays for making discipline a little more structured, getting some extended years of parental support in a place with a quad and beer, and certification. You also meet elite friends. There's prestige in getting into a top school, whether you finish or not.

All of these benefits might be had less expensively in other ways, and that is becoming truer every day. The knowledge is no longer held in a dungeon. Anyone with a 'net connection can pretty much get any information that would be presented in a university. Undoubtedly some sort of social coercion site or fantasy game will take off online to help out with the discipline of self-education. As for the degree, the piece of paper, Internet statistics ought to be able to make mincemeat out of old-fashioned degree-earning in very short order. Why make do with a GPA when you can get a detailed dossier on your potential hire?

As for the years of parental support, it is turning out that in a Napsterized overall economy, more and more graduates stay with their parents well after college anyway. Why spend a ton of money supporting kids in college for four years when the same money could last longer to put them up somewhere cheaper?

WHY ARE WE STILL BOTHERING WITH HIGHER EDUCATION IN THE NETWORK AGE? WE HAVE WIKIPEDIA AND A WORLD OF OTHER TOOLS.

EDUCATION WITHOUT EDUCATORS

I remember looking at images of all the bright young people in Egypt's Tahrir Square, right after they had overthrown a dictator. Here was a forward-looking, young, savvy, and high-tech new generation. How would they get jobs? Shouldn't a bunch of these young people be professors in Egyptian universities in ten years? Is the Internet going to make it easier or harder for them to get those jobs?

This is a pattern we'll see over and over again when people interact with top network servers. You get an incredible bargain up front, like super-easy mortgages, insanely cheap retail items, or free online tools or music, but in the long term you also face reduced job prospects. In this case you get free online education up front but fewer academic jobs in the longer term.

We need to find a way to make education more available *and* make the career benefits of education more attainable.

Now, as levees break and austerity rules, suddenly contracts turn out not to be inviolable. This is what union members and copyright holders have learned. So where will this leave academics, as our century of digital networking proceeds? They'll be caught clinging to the pomp of graduation ceremonies, to their employment contracts, and the tenure process, which has lasted for centuries. But all this will be under assault.

The problem won't be the price of the buildings or the land of the campus. No, it's always possible to raise millions of dollars to build a building, even as graduate students are paid so little that they take on lifetimes of debt just to make it through. Buildings are wealth, and wealth begets wealth. Graduate students are not.

How did anyone ever afford education? Society will not be able to afford the risk of the great debt load that students collectively take on. Austerity will force a contraction of government support of the academy, everywhere in the world at once.

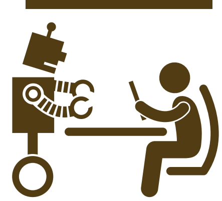
Is it a coincidence that formal education is starting to become impossibly, cosmically expensive just at the moment that informal education is starting to become free? No, no coincidence. This is just another little fractal reflection of the big picture of the way we've designed network information systems. The two trends are a single trend.

I imagine that the academics from top technical schools will do fine. Honestly, there's no way Silicon Valley would stand to see MIT fall. That wouldn't be a danger anyway, because the top technical schools make money from technology. Stanford sometimes seems indistinguishable from a Silicon Valley company.

What about liberal-arts professors at state colleges? Some academics will hang on, but the prospects are grim. A decade or two from now, if nothing changes, the outlook will recall the present state of recorded music. In the case of that industry, making a pre-digital system efficient through the use of a digital network quickly shrank it economically to about a quarter of its size. It will shrink perhaps to about a tenth once people with old habits die off. This is not because of obsolescence. Music is not fading away like buggy whips, any more than the need for education will. Instead, wealth is becoming concentrated, since most of the real value, which still occurs out in the real world, on the ground, is reconceived to be off the books.

The lure of "free" will beckon. Get educated for free now! But don't plan on a job as an educator.

THERE IS TALK THAT ROBOTS WILL BECOME ADVANCED ENOUGH IN TIME TO TAKE CARE OF THE ELDERLY.



THE ROBOTIC BEDPAN

One of the bright spots in the future of middle-class employment is usually taken to be health care. Surely we'll need millions of new nurses to care for the aging baby boomers. Caregivers will become a huge new middle-class population. If you want to think in terms of social mobility, this would also mean a huge transfer of wealth between generations that isn't necessarily kept within families. It should be an example of the great wheel of middle-class aspiration turning anew in the United States.

But this prospect, like others, is unraveling. Just look at Japan.

The country faces one of the world's most severe depopulation spirals. Around 2025 or 2030, Japan can expect a profound shortage of working-age people and a gigantic population of elderly people. Japan has traditionally not welcomed waves of non-Japanese immigrants. And it is at the cutting edge in robotics research.

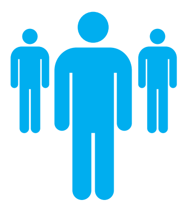
Therefore, there is talk that robots will become advanced enough in time to take care of the elderly. This is plausible, from a technical point of view. Robots are already able to handle delicate tasks, like certain surgical subroutines, and are getting to be reliable enough to be a less risky choice than humans in some situations, such as driving vehicles.

Would a robot nurse be emotionally acceptable? Japanese culture seems to have anticipated the coming demographic crunch. Robots have been cute in Japan for decades. Trustworthy fictional robots, like Transformers and Tamagotchis, are a primary national cultural export. As with all waves of technological change, it is hard to predict when the inevitable glitches and gotchas will be smoothed out. In this case, though, the motivation is so intense that I expect robots in Japanese nursing homes by 2020 and in widespread use by 2025.

Sans robots, one would expect waves of immigrants to go to American nursing schools in the next decade to prepare to take care of America's own age wave. Their children would be raised by parents who practiced a profession, and would tend to become professional themselves. Thus a whole new generation of customers for colleges and a new wave of middle-class families would make their way, continuing the American pattern.

But those imported robots will be awfully tempting. If you spend any time in eldercare facilities such as nursing homes, a few things become apparent. First, there is no way for even the most professional and attentive staffs to help everyone as fast as would be ideal. It's inconceivable to have immediately available 24/7 help for every discomfort that comes up. Second, eldercare is unbelievably hard and uncomfortable work, if it's done well. It's very hard for even the best facility to make absolutely sure that every member of the staff is always doing the best possible job. The elderly make easy victims, like children. Petty thefts and taunts are not uncommon.

It's not that robots will necessarily be immediately cheaper than human staff. There might be significant expenses associated with the goops needed to print them, if they're printed, or with manufacturing and maintaining them if they are not. But the expenses will be more predictable, and that will make all the difference.



HUMANS WILL ALWAYS DO THOSE JOBS THAT A ROBOT CAN'T DO, BUT THE TASKS MIGHT BE CONCEIVED AS BEING LOW-SKILLED.

Hiring a human nurse will mean paying for that person's health insurance, and taking on unpredictable legal liabilities for the mistakes that person might make, like leaving a floor wet. Both of these drags on the ledger will be amplified by network effects, just as has happened with mortgage risks.

Insurance companies will use computers to weasel out of liability *and* to extract ever-larger payments. The whole world's lawyers will be circling online. The liability side of having an employee will be copied and amplified over a network, just like a pirated music file or a securitized mortgage. It will eventually become less risky to choose a robot. When you turn action into software, then no one gets blamed for what happens.

Humans will always do those jobs that a robot can't do, but the tasks might be conceived as being low-skilled. It might turn out that robots can give massages but can't answer the door. Maybe robots will be good at catching patients who fake the ingestion of medicines but ineffective at soothing patients so that they'll take them voluntarily.

The key reason to avoid acknowledging that there's real skill in doing what robots can't do—and hiring people for real jobs—will not be to keep the immediate expenses low but, rather, to reduce the amplified liabilities of the network age. So there will be plenty of dead-end jobs without security or benefits. This will be despite the fact that the humans in the caregiving loop might be absolutely essential to the well-being of those being cared for.

The latest waves of high-tech innovation have not created jobs like the old ones did. Iconic new ventures like Facebook employ vastly fewer people than big older companies like, say, General Motors. Put another way, the new workforce schemes that grant ultimate power to networked computers channel much of the productivity of ordinary people into an informal economy of barter and reputation, while concentrating the extracted old-fashioned wealth for themselves. All activity that takes place over digital networks becomes subject to arbitrage, in the sense that risk is routed to whoever suffers lesser computation resources.

The universal advice of our times is that people who want to do well, as information technology advances, will need to double down on their technical educations and learn to be entrepreneurial and adaptable. But without considering technology's impact on middle-class employment, there won't be enough positions working with networks and computers to sustain a society. ■

WHY BO DOIN STRA

BECAUSE IT'S THE ONLY WAY TO FIGURE OUT WHAT TO PAY ATTENTION TO—AND HOW TO GET BETTER.

WHEN I ASK BUSINESS EXECUTIVES ABOUT THEIR COMPANY'S STRATEGY—OR ABOUT AN APPARENT LACK THEREOF—THEY OFTEN RESPOND THAT THEY CAN'T OR WON'T DO STRATEGY BECAUSE THEIR OPERATING ENVIRONMENT IS CHANGING SO MUCH. THERE ISN'T ENOUGH CERTAINTY, THEY ARGUE, TO BE ABLE TO DO STRATEGY EFFECTIVELY.

This is an argument I hear particularly often in high-technology sectors. It is almost a mantra there, a badge of pride and superiority: "We run at breakneck speed in the world of high tech, and there isn't time to stop and do strategy. It will emerge naturally over time."

The implication is that only boring corporate bureaucrats in large corporations, where the future is (apparently) certain, engage in strategy. Growth companies, it seems, have far more urgent things to do.

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I find this to be pretty interesting logic. Essentially, the argument is that the present is too uncertain to make any strategic decisions about the future. However, at some future time, things will be certain enough to make choices.

I really wonder what makes them think so. Life is and always has been uncertain. If we live in an uncertain, fast-moving, turbulent world today, why would it be any different a week, a month, or a year from now? If the world is too uncertain to choose today, what is it about the future that will make things more certain? At some point, do we simply declare the world to be certain enough to make strategy choices? How will we know it is the day? What criteria will we use to decide the requisite level of certainty has been reached? Or will we simply put off choosing forever, because certainty is utterly unachievable at any stage?

The danger, of course, is that while we are using uncertainty as an excuse to put off making strategic choices, the competition may be doing something else entirely. They may be strategizing their way to first-mover advantages and positions that leave few if any attractive options in the market.

What I generally observe about companies that say that it is too uncertain to do strategy is that they complain after the fact about having been blindsided by something

Photo: Image Source

unexpected. Their narrative tends to be that when it happened, it was just too late to do anything constructive about it. The failure wasn't at all their fault, because the industry is uncertain and this kind of stuff just happens naturally.

This is beautifully self-sealing logic that absolves leaders completely from any responsibility. Leaders who use this logic ensure that they don't acquire any useful lessons whatsoever from the experience. Because they have a narrative that says it wasn't their fault, they don't explore their actions. And when their company crashes and burns because it was beaten by some other company that actually had a strategy, these leaders go somewhere else and do the same thing all over again.

In truth, every company has a strategy. Whether it "does strategy" explicitly or not, the choices that it makes on a daily basis result in the company operating on some part of the playing field (i.e., making a where-to-play choice) and competing there in some fashion (i.e., making a how-to-win choice). It matters not a whit whether the industry is highly uncertain, every company competing in it has a strategy.

Without making an effort to "do strategy," though, a company runs the risk of its numerous daily choices having no coherence to them, of being contradictory across divisions and levels, and of amounting to very little of meaning. It doesn't have to be so. But it continues to be so because these leaders don't believe there is a better way.

> Contrary to popular opinion, strategy is not about turning uncertainty into certainty.

Contrary to popular opinion, strategy is not about turning uncertainty into certainty. Lots of bureaucratically inclined board members and corporate executives want and expect this to be the case. When reviewing strategies, you can hear them asking for proof that the strategy will be successful.

This kind of exchange is a terrible mistake on all sides. Advocates are promising something they can't control and are setting themselves up for harsh punishment if things don't turn out the way they hope. At the same time, making a guarantee in advance simply reinforces the mistaken belief that it is possible to be certain about any future outcome.

The reality is that strategy is about making choices under competition and uncertainty. No choice made today can make future uncertainty go away. The best that great strategy can do is shorten the odds of success. When crafting a strategy, all companies need to make bets about what customers will want in the future, what competitors will do in the future, what the company itself is capable of accomplishing in the future, what will happen in the economy generally. None of these bets can be guaranteed.

Strategy means making the best possible choices you can make today and then being responsive when the bets do or do not come in as hoped. In essence, the strategist says "this is what I think will happen," watches what does happen, and then updates the strategy and bets based on the newest information.

If strategy can't eliminate uncertainty and needs repeated adjustments, why bother doing it at all? Why not just let the world play out and react accordingly? The reason is that strategy is the only way to figure out what to pay attention to and how to get better.

The act of articulating a desired future state—a decision about where to play and how to win—enables the tracking of progress against the desired state. Stating the set of key bets about the future that have to come true for that desired state to happen allows the monitoring of how the key bets are playing out.

For example, a company looking to win on the basis of superior consumer service would have to bet that consumers would reward it for superior service and that it could deliver that service meaningfully better than could competitors. Having articulated the strategy and the bets, the company can develop measurement systems for both the outcome and the bets.

These systems should clearly point to the things that matter, the things the company must pay attention to. Without them, as the future plays out, the company won't know what matters or how to make sense of the things that happen. In essence, articulating a strategy raises the signal-to-noise ratio of feedback from the market.

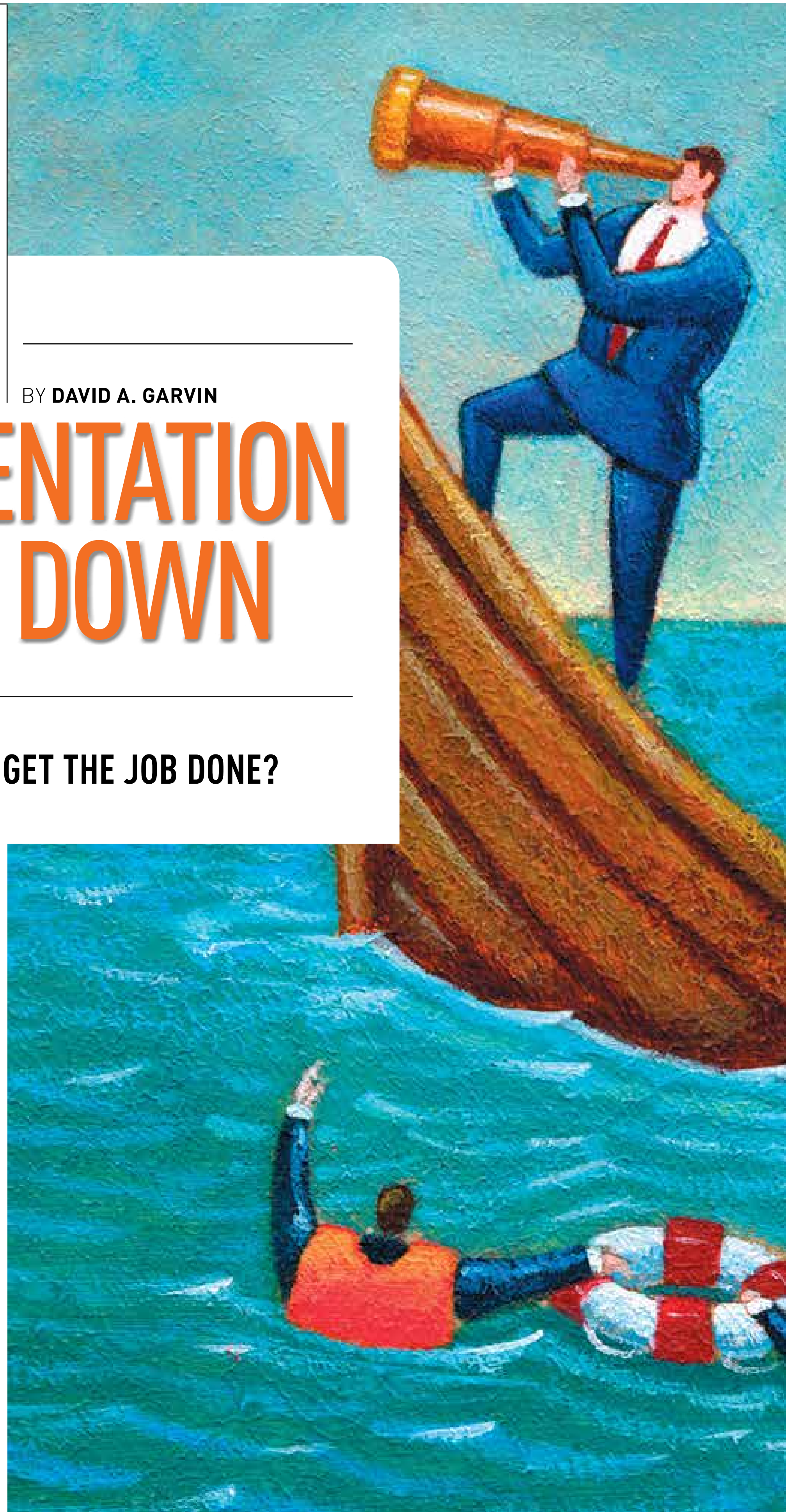
So strategy is not about getting rid of uncertainty, it is about knowing when the world is breaking against your bets—e.g., we thought customers wanted smaller screens, but they really want bigger ones. This way of thinking about strategy is helpful in two ways. First, the company can watch the key bets like a hawk, see deviations as early as possible, and take action as appropriate. Without knowing what to watch for, the company is much slower to respond. Second, the company gets a leg up on how to modify its strategy. The company has a logical structure to its existing strategy to which it can apply the new data, updating and enhancing the strategic logic. This is much more efficient than having to create the structure from scratch.

So rather than seeing strategy as a way to get rid of uncertainty, think about strategy as a way of dealing productively with life's inevitable uncertainty, by continuously making and updating your bets about the future. ■

WHERE IMPLEMENTATION BREAKS DOWN

BY **DAVID A. GARVIN**

WHY CAN'T COMPANIES GET THE JOB DONE?



EXECUTIVES TODAY ARE ENAMORED OF INNOVATION. MANY BELIEVE THAT THE ONLY WAY TO IMPROVE THEIR COMPANY'S PERFORMANCE IS BY PRODUCING A STEADY STREAM OF NEW PRODUCTS AND SERVICES, IDENTIFYING CUSTOMERS' "PAIN POINTS" AND "JOBS TO BE DONE" AND THEN FULFILLING UNMET NEEDS. APPLE, WITH ITS IMAC, IPOD, ITUNES, IPHONE, AND IPAD, IS THE POSTER CHILD FOR THIS APPROACH DONE RIGHT.

Innovation is clearly essential if companies are to prosper in the long run. But they must also perform day-to-day. And there, effective implementation is the name of the game. Companies have

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to be able to deliver on their promises. Yet countless conversations with executives—as well as dozens of case studies I have written on firms in industries as diverse as automobiles, electronics, health care, retailing, and software—lead to the same dispiriting conclusion: Many companies flounder when it comes to executing their plans. They are unable to meet financial and operational targets; unable to roll out carefully constructed marketing, manufacturing, and sales programs; and unable to launch IT systems in a timely, cost-effective manner.

In short, they can't get the job done.

Why not? Faced with shortfalls in performance, many executives round up the usual set of suspects. "The plan was overly optimistic," they say. "The new technology didn't behave as expected." "The global economy took a turn for the worse." "Our partners failed to give us the necessary support." Sound familiar? It's an all-too-common refrain, with the same underlying message: "It's not our fault."

There is, however, an alternative explanation—that the problems stem not from an unforeseeable future but from weaknesses in management. Imperfect foresight is not the main culprit—rather, it is flawed execution. Managers have simply not devoted the necessary time and attention to mastering the skills of implementation. In their zealous pursuit of transformation and reinvention, they have shortchanged the basic blocking and tackling required to get things done. As Cassius puts it in *Julius Caesar*: "The fault, dear Brutus, is not in our stars, but in ourselves."

Of course, planning and execution cannot always be neatly separated. In practice, the two activities frequently overlap; they are interdependent rather than linear and sequential. Still, identifying the distinctive tasks and challenges of implementation—the final stage of moving an idea, program, or initiative from concept to reality—is important because it allows managers to zero in on the barriers to aligned, effective action and devise ways to overcome them.

ARE YOU EXECUTING?

But first, what do we mean when we say that implementation has been effective? How will managers know it when they see it? Consider the following definition:

Effective implementation is delivering what is planned or promised; on time, on budget, and at quality; with a minimum of variability; even in the face of unexpected events and contingencies.

This definition captures four essential truths about implementation. First, it recognizes that success must be measured against pre-established specifications, goals, or design objectives. Skill at getting things done cannot be assessed in a

Illustration: © Corbis

vacuum. Determining whether or not implementation has been effective requires comparing performance to concrete, agreed-upon deliverables—a 10 percent increase in a product's market share, perhaps, or the training of one hundred electrical engineers in advanced circuit design. Second, the definition emphasizes that successfully delivering *what* is promised is not enough; the *when* and *how* of delivery are equally important. Effective implementation demands timeliness, cost sensitivity, and quality that conforms to standard. An innovative cell phone that provides all promised features but comes to market a year behind schedule does not meet this test (as Research in Motion learned with the BlackBerry 10), nor does a software installation that comes in over budget and is plagued by bugs (as unhappy customers have repeatedly told sellers of ERP systems).

Third, this definition highlights the importance of consistency as an element of effective implementation. Seldom does the success of a new program or initiative hinge on a single action or a one-time event. Rather, implementation unfolds and takes hold over time, putting a premium on coordination and repetition. Consistency is essential. Managers and employees must take the same actions and repeat the same behaviors time and time again, with limited variation. Otherwise, delivery will be uneven and ineffective. This is especially true of large, multisite organizations—retailers such as Walmart, restaurants such as Wendy's, and banks such as Wells Fargo. These companies often roll out new initiatives simultaneously at tens or even hundreds of sites, each with subtle differences in design, equipment, and staffing. Yet the expectation is that, despite these differences, every site will introduce the initiative in much the same way and with much the same results. Consistency of execution is therefore a virtue, and excessive variability across sites is a sign of ineffective implementation.

The fourth element of the definition is likely to be the most controversial because it eliminates a popular excuse—that unforeseen events absolve managers from responsibility for implementation shortfalls. Management, as Leonard Sayles notes in *Leadership: Managing in Real Organizations*, is "a contingency activity; managers act when routines break down, when unanticipated snags appear." For this reason, they can hardly be given a free pass when actions or events do not go as planned. Resilience—the ability to recover from the unexpected and redirect activities so they still yield desired outcomes—is thus a hallmark of organizations that implement effectively. So too is some degree of foresight and anticipation. While the future *is* uncertain, many organizations face a range of what Max Bazerman and Michael Watkins dubbed "predictable surprises"—events that are likely to happen but whose precise timing cannot be fixed with certainty. Some department will fail to meet its promised deadlines; some component will not match required specifications; some staff member will call in sick. Imagining and preparing for such contingencies is essential to getting the job done.

Taken together, these four elements create a demanding but workable definition of effective implementation. Note that despite its comprehensiveness, this definition does not equate effectiveness with omniscience on the part of managers, nor does it demand perfect planning. What it does require is an understanding of the ways that even the best laid plans can derail and how those implementation breakdowns can be prevented or overcome.

WHY THINGS DON'T WORK

Implementation requires action. But that action must be mindful and directed. Managers would be wise to heed Benjamin Franklin's warning, "Never confuse motion with action." Execution can go awry through misguided movement as well as inertia. Fortunately, most derailments can be mitigated or eliminated with the proper up-front attention or real-time remediation.

LACK OF UNDERSTANDING. At times, implementation fails for the simplest of reasons: The path forward has not been clearly communicated to members of the organization. This problem takes two main forms: (1) managers and employees who do not understand the overall objective or intent of the plan and so go off in the wrong direction, and (2) managers and employees who do not understand the granular changes in behavior that are required if the plan is to be implemented effectively and so do not change their daily routines. These problems are mirror images of one another. The first reflects a lack of understanding of the big picture; the second reflects a lack of understanding of essential details.

New programs and initiatives are normally designed to serve larger ends—strategic objectives, customer needs, growth targets, and cost-reduction goals. Yet executives do not always communicate these broader imperatives when developing or rolling

Effective implementation is delivering what is planned or promised; on time, on budget, and at quality; with a minimum of variability; even in the face of unexpected events and contingencies.

out implementation plans. Frequently, they fail to provide members of the organization with information on context or intent, or do so using vague, loosely defined terminology. Workers at an aging production plant may be told that they must now adopt a new manufacturing technology "to improve our competitive positioning," while members of a rapidly growing sales force may be informed that they are now required to use a complex reporting system because of "the need for better controls." Such vagueness is usually justified by the claim that operating personnel are likely to be distracted by strategic or contextual information; their primary focus is execution.

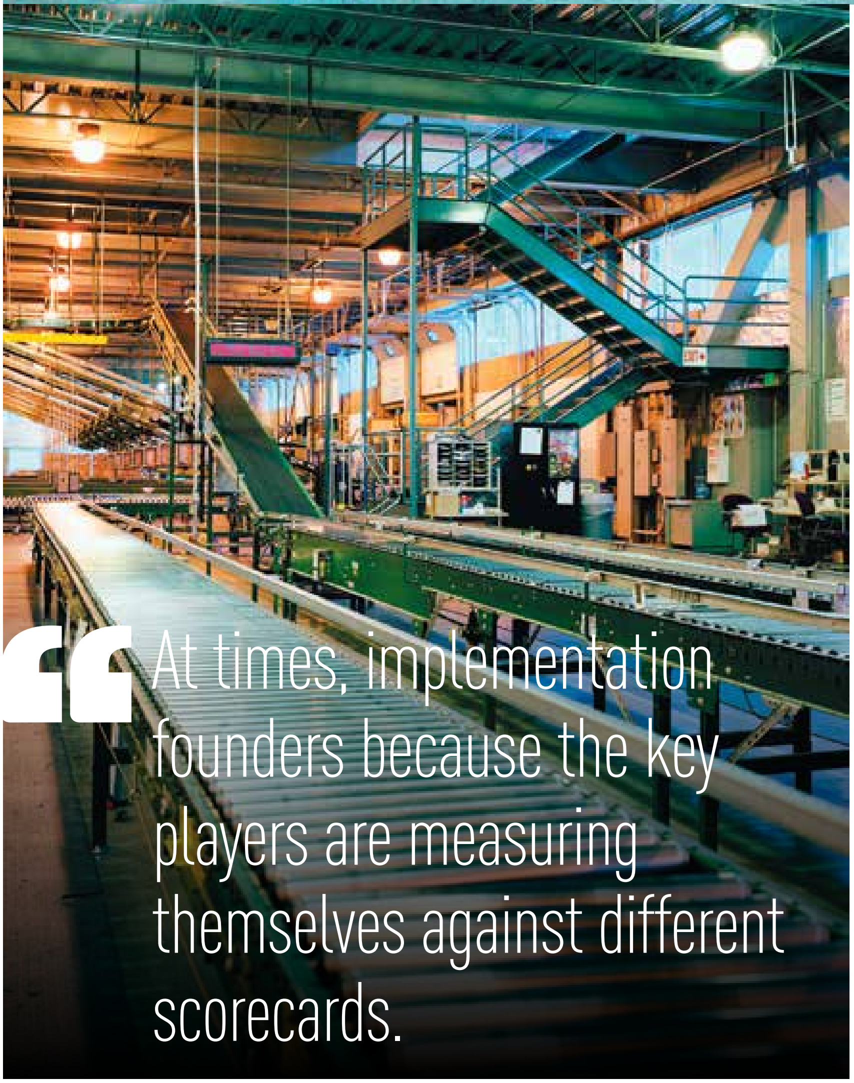
This approach may work when the environment is stable and unchanging, but it is deeply flawed when market, technological, social, or economic forces are in flux. Then, managers and employees often have to rework their implementation plans to adjust to emerging new realities, often quickly and without guidance from above. To make the right decisions, they require an understanding of context and intent.

The military has long understood this need. The U.S. Army's After-Action Reviews, widely used by officers and soldiers to reflect on successes and failures immediately after a training exercise or mission and derive lessons for the future, always begin with the question, "What did we set out to do?" Lack of agreement is often the first hint of things gone wrong—it signals the leader's failure to communicate a clear, well-specified, widely shared objective. Without such understanding, there is little basis for aligned action, especially in the face of breakdowns or unexpected events. For this reason, both Army and Marine Corps doctrine give great weight to the importance of having a clearly communicated "Commander's Intent," which Naval War College professor Milan Vego defines as "the description of a desired military endstate (or 'landscape') that a commander wants to see after the given mission is accomplished." In training exercises, officers practice articulating intent so that their soldiers can complete missions as planned or respond quickly and appropriately to unexpected developments on the battlefield.

The lessons for corporate leaders should be obvious. "Commander's intent" is strikingly similar to "strategic intent," and "completing a mission" is closely akin to "implementing a plan." In corporate as well as military settings, understanding precisely how success will be measured improves the odds of effective implementation. TopCoder Inc., an online intermediary that uses competitions within its community of more than 300,000 software programmers to produce complex code at low cost and with few bugs or last-minute revisions, has institutionalized the practice of clarifying intent. In its early conceptualization contests, positioned well before the development of detailed specifications, members of the community pose hundreds of questions to clients about their anticipated uses and needs, seeking to understand exactly what desired software programs must be able to deliver. Only then do they draft formal requirements statements and begin to write code.

Lack of understanding of the big picture is not the only communication breakdown that leads to implementation problems. Difficulties also arise when managers and employees lack an understanding of granular details. Strategies must, as Henry Mintzberg puts it, be "programmed" so that lofty objectives are translated into concrete activities. Otherwise, confusion and delay are inevitable because people will not understand what they are actually required to do. The process is one of decomposition, in which broad goals are broken down and converted to specific actions and behaviors. Skilled implementers such as Emerson Electric, Staples, and UPS routinely take this step; many other companies do not.

LACK OF BUY-IN OR COMMITMENT. At times, plans are not implemented because managers and employees have not been fully convinced of the need for new behaviors. They may lack the will or desire to change, especially if they believe that a proposed initiative is likely to impose additional work, require increased effort, or place them at a personal disadvantage. A program to improve customer satisfaction that requires front-line employees to develop relational skills—and that imposes tougher scorecards for evaluating



> “At times, implementation founders because the key players are measuring themselves against different scorecards.

performance—is unlikely to be implemented if employees are unenthusiastic or not fully convinced of the program’s necessity or benefits. As Donald Hambrick and Albert Cannella have noted in the *Academy of Management Executive*, implementation involves both “substance and selling,” and employees will expect answers to four questions: (1) Why do we need to change? (2) Why is this the right change? (3) Why do you think the organization can handle the change? And (4) What are you going to do to help me through the change?

Julie Morath, for many years COO of Children’s Hospital and Clinics of Minneapolis-St. Paul, started the process of obtaining buy-in even before she took the job. Morath was interested in introducing a patient-safety initiative but recognized that medical errors were a sensitive subject for doctors and nurses. So she began selling early and often. Morath recalled: “As part of my entry into the organization, I had carefully crafted conversations around the topic of safety with people who would have to be on board with the initiative. I did spade work, talking about how we could align the whole organization so that safety was not just a problem for people on the front lines but was owned by the administrators who designed and operated many of the hospital’s systems. I found that most people had been at the center of a healthcare situation where something did not go well. They were quick to recognize that the hospital could be doing things better than it was.”

Morath continued her education efforts during her first year as COO, sharing national data on medical accidents and convening confidential focus groups to draw out stories from the staff about their own experiences. Only after Children’s staff members were convinced of the importance of the issue did Morath launch a formal patient-safety initiative that included concrete changes in reporting, disclosure, root-cause analysis, infrastructure, and systems.

LACK OF CAPABILITY OR CAPACITY. Even with the best of intentions, implementation efforts can fall short if managers and employees do not have the necessary competence or skills. They may be out of date, unequipped for the challenge, or lacking in foundational knowledge. A corporate manufacturing group may have detailed plans for a promising six-sigma initiative, but if production managers lack basic math skills, are uncomfortable with numbers, or distrust quantitative reasoning, the program is unlikely to succeed no matter how well it has been designed. It is for this reason that effective implementation often begins with intensive education and training. Zensar Technologies, a mid-sized Indian software company that has for over a decade relied on small teams of young, recently hired employees, called Vision Communities, to work together for six weeks to generate high-impact strategic and organizational innovations, provides all participants with real-time training in brainstorming, mind mapping, lateral thinking, and other creativity techniques to ensure that they have the necessary toolkits for generating, developing, and implementing breakthrough ideas.

The problem of insufficient capacity exists at the organizational level as well. Senior executives often promote broad-based initiatives that require resources from multiple departments without first checking if those departments have sufficient capacity to handle the increased demands on their people or their time. If resources are lacking, implementation is unlikely to succeed. As Bob Frisch observes in *Who's in the Room?*: "Failure to properly identify and manage dependencies [the costs and resources assumed to be available but carried on the budgets of other functions] is one of the primary reasons initiatives fail."

Note that identifying and adding required resources is best done during the very earliest stages of a program or project. Doing so late in the game frequently has unintended side effects. The effort required to bring new people up to speed and ensure that they are coordinated and integrated into a process that is well under way makes schedule slippage virtually inevitable. Software engineer Fred Brooks found this phenomenon to be so pervasive that he immortalized it as Brooks's Law: "Adding manpower to a late software project makes it later."

LACK OF ALIGNED GOALS. At times, implementation founders because the key players are measuring themselves against different scorecards, pursuing incompatible targets or conflicting objectives. Members of each organization may argue for steps that are in their own best interests and resist those that are not; without some mechanism for ensuring common direction or a basis for compromise, gridlock is likely. This is a common challenge for initiatives that cross departmental or divisional boundaries. When the National Geographic Society began to pursue integrated, multimedia projects—using the same discoveries and stories as the basis for magazine articles, books, movies, cable television shows, websites, and video games—it ran into just this problem. Members of the new and old media clashed; employees described the organization as siloed and territorial, with frequent turf battles that slowed execution. The CEO responded with two, highly visible steps: He made "collaboration" the single biggest factor in calculating bonuses, and he subsequently removed two division heads, one responsible for traditional media and the other responsible for a digital product line, who were continuing to act protectively and defensively. Multimedia projects soon became a lot less contentious, and implementation improved dramatically.

Sometimes, the differences among groups are so deeply rooted that action will only be taken if decisions are elevated to a higher level. Then, effective implementation requires an escalation mechanism, as well as the existence of an objective arbiter or judge. UPS took exactly this step in 2003 when it found that several of its strategic initiatives had stalled. The CEO asked a senior executive, John McDevitt, to join the Management Committee and take charge of "strategic integration." His role was loosely defined; UPS managers variously described McDevitt as "the champion of strategy execution," a neutral "tiebreaker on the Management Committee," and the executive who was "brought in to help resolve deadlocks." McDevitt himself defined his job as providing "accountability with visibility." He explained: "The job involved a lot of change, since various parts of the organization were working on different projects and often using competing metrics. Roles were not always consistently defined. There were also different opinions about what we were trying to accomplish and how to get these imperatives operationalized. My responsibility was to make sure that all the teams delivered what they said they were going to deliver. For instance, on Trade Direct [a new service offering that would take goods manufactured abroad and link them into the U.S. delivery system], we set up meetings with all participants and uncovered the problems. The issues were elevated to the management committee, and we made sure that accountability was assigned. I had access to all the players because I reported directly to the CEO."

LACK OF AWARENESS OF PROBLEMS. No plan unfolds exactly as anticipated. At many organizations, shortfalls, delays, errors, and noncompliance are the norm, not the exception—parts arrive days late, committed new hires spurn job offers, designs remain sketchy or incomplete, and feuding departments refuse to compromise. Often, the difference between effective and ineffective implementation lies in when these problems are uncovered. Deviations found early in the process are relatively easy to fix; those found in later stages of execution (or not at all) are far more difficult to remedy.

For this reason, effective implementation requires continuous oversight and monitoring, as well as ongoing problem-solving. Managers must immerse themselves in operational details and keep feedback cycles short. To ensure faster response after the onset of the recession, the CEO of Office Depot began to review budgets monthly rather than quarterly. A general manager at a smaller firm expanded on the importance of close, attentive monitoring: "You need to keep your hand in the cookie jar. You must 'trust but verify,' as Ronald Reagan said. Every day *The Wall Street Journal* has stories on management fiascoes where top management didn't know what was going on. They were so busy with the view from the balcony that they didn't watch the store."

Checklists are one simple way of identifying problem areas and making them visible to all members of a team. Early-warning systems such as red/

yellow/green coding of progress are also helpful, as are regular review meetings and a culture that encourages the discussion of emerging difficulties.

Alan Mulally found all of these to be lacking early in his tenure as CEO of Ford. Mulally had come from Boeing, where early notification of problems was expected (a mid-level manager at Boeing explained, "If I'm at a status meeting and I find that someone has missed a critical milestone, the first question I ask is, 'Why didn't you tell me about the problem last week?', not, 'Why did you miss the milestone?'"). The norm at Ford was quite different: Keep problems hidden. As Bryce Hoffman describes in *American Icon: Alan Mulally and the Fight to Save Ford Motor Company*, formal meetings at Ford were viewed as "political theater"; the aim was to present a rosy, upbeat picture of one's business or function whatever the circumstances. Only in side discussions were "truths too painful to put in a PowerPoint presentation shared."

Soon after his arrival, Mulally initiated a weekly, mandatory business-plan review meeting, in which the entire senior team discussed progress against goals using a red/yellow/green coding system. To Mulally's frustration, presenters at the early meetings continued to claim that all was well (coding their projects almost entirely green, indicating trouble-free operations) despite the company's financial difficulties. Finally, the head of the Americas business announced at one of these meetings that his group was delaying a critical product launch because of possible suspension problems; he recalled that in the ensuing silence he thought he might be fired. How did Mulally respond? Not with criticism but with a hearty round of applause, followed by a big thank-you for the executive's candor. Within weeks, other managers began to volunteer their problems as well.

LACK OF RESPONSE TO CHANGING CONDITIONS. At times, implementation fails because of rigidity—managers' and employees' unwillingness to deviate from pre-established plans despite changes in the internal or external environment. They continue to follow prescribed steps blindly, while struggling to convince themselves that they are still moving in the right direction. Unfortunately, the right plan for one set of conditions is seldom right for all others. Consider NASA's insistence on proceeding with its planned *Challenger* launch despite unusually low temperatures.

Contingency planning is an obvious solution to this problem, as is broadening one's planning assumptions. Before the recession, Whirlpool's strategic plans included scenarios in which demand was 5 percent higher and lower than expected; as the crisis worsened, managers broadened their scenarios to include possible increases and decreases of as much as 15 percent.

Note, however, that the mere existence of contingency plans or alternative scenarios hardly guarantees effective implementation. Key actors must also be willing to admit when a contingency has become reality—and must then act upon that knowledge. This imposes two requirements: (1) repeatedly testing the currency and validity of one's assumptions about the environment, and (2) building in triggers for action.

When Harvey Golub was CEO of American Express, he always asked his managers to be explicit about the assumptions they were making when formulating plans—as he put it, to describe "the rocks they were standing on"—so that in future business reviews he could assess whether the actions that were deemed appropriate during the planning stage still made sense or whether the underlying assumptions had changed sufficiently to warrant different behavior.

Xerox CEO Paul Allaire took a similar approach. He and his senior team spent a year developing twenty-eight shared "view-of-the-world" assumptions, organized into four areas—economy and society, technology and organization, markets and customers, and industry and competition—that they then used to guide the company's strategic planning. Equally important, Allaire insisted that all assumptions be reviewed and revised on a regular basis to ensure that they remained evergreen.

LACK OF DISCIPLINE. Sometimes, implementation efforts start off well but then fail to stay on track. After an initial period of success, progress slows and critical tasks are left undone. There are many possible causes: unclear or shifting priorities, an overload of initiatives, an absence of reinforcement and encouragement. Managers and employees face mushrooming, constantly shifting to-do lists; they are barely able to start on one agenda item when another suddenly rises in importance. Priorities can change with dizzying speed, leading to the dreaded fad-of-the-month syndrome.

Such shifts interfere with, and frequently undermine, execution because they result in wandering attention and a loss of focus. Effective implementation requires stick-to-it-iveness and disciplined follow-through, not wavering, inconsistent commitments. It should therefore come as no surprise that a study by Steven Kaplan, Mark Klebanov, and Morten Sorensen of CEOs of buyout firms found that superior performance was positively and significantly related to CEOs' "resoluteness": personal traits such as persistence, proactivity, delivering on commitments, and holding people accountable, rather than team building or interpersonal skills. Reinforcement, repeated communication, and singular focus were all essential to effective implementation.

Senior executives, after all, hold a bully pulpit, and one of their primary jobs is to manage organizational attention. They do so in multiple ways. Golub, in leading a multiyear reengineering initiative at American Express that reduced costs by over $1 billion, focused attention through personal involvement. In his words: “I took ownership of the reengineering initiative; I did not delegate it. People had to feel it was their and my responsibility, and my behavior had to match the message. I went to reviews; I was present at project meetings; I attended training sessions. I contributed ideas and illustrated how to think about redesign. And I talked about reengineering all the time.”

Jack Welch of GE worked similarly, reducing distractions by focusing on one major improvement initiative at a time—Work-Out, then Change Acceleration Process, and finally, Six Sigma. Each initiative remained a primary organizational focus for several years. Staples uses a slightly different approach. It ensures that employees’ attention is focused through continuous, overlapping reinforcement by multiple levels of management, who manage by walking around. Division presidents, regional VPs, and district managers all make regular store visits of several hours’ duration. During those visits, which occur as frequently as once every one or two weeks, they walk the floor and engage managers and employees in discussions about the status of the company’s latest initiatives, such as the rollout of digital cameras or the expansion of Copy and Print Centers, to ensure that they remain a priority.

MAPPING IMPLEMENTATION

Effective implementers are cut from much the same cloth. Despite differences in specific practices, their underlying philosophies are much the same. They embrace a flexible process perspective, insist on high levels of visibility and transparency, and consider skilled management to be as important as visionary leadership.

A process perspective ensures that managers and employees view implementation as a succession of interrelated activities that take place over days, weeks, and even months, rather than a one-time event. Implementation doesn’t just happen—it *unfolds*. Execution is usually a drawn-out affair, which means it must be divided into discrete, separate steps. There are many opportunities for derailment—and for corrective action. Sometimes, the required tasks and activities are executed in the pre-established sequence; just as often, they are not.

Effective implementers accept this reality—that implementation is a process with a multitude of steps that need to be carefully mapped in advance (which requires high levels of granular detail), and that the predicted sequence of steps seldom unfolds precisely as planned (which requires real-time adaptability and flexibility from managers and employees).

Adaptability will occur only in an environment that encourages visibility and transparency. Effective implementers understand that deviations from plan are inevitable; the trick is identifying them early and then responding quickly. As the CFO of a leading bank observed: “Most problems don’t age well.” Skilled implementers are especially attentive to centrifugal forces such as competing visions, incompatible priorities, unshared assumptions, and suppressed disagreements that impede progress. They strive to surface these roadblocks and bring them into the open. Comfort with visibility, however, is surprisingly difficult to achieve, especially in conflict-averse or perfectionist organizations where airing disagreements or owning up to mistakes is viewed as career-limiting.

The culture that Harvey Golub faced when he became CEO of American Express had just these pernicious characteristics; to overcome them, he followed three simple rules: “Never beat up on anybody who brings bad news, never beat up on anybody who says ‘I don’t know,’ but do beat up on those who bullshit.” Like other skilled implementers, Golub recognized that shooting the messenger virtually ensures that execution efforts will eventually derail. Why? Because as scholar David Woods has observed: “You cannot solve your problems until you know what they are. And you will not know what they are unless you create an environment where people feel free to tell you.”

Finally, effective implementers celebrate management as much as leadership. In recent years, leadership skills—establishing direction, creating alignment, motivating and inspiring—have become the Holy Grail for executives, while management skills—planning and budgeting, organizing and staffing, controlling and problem-solving—have taken a back seat. Not so at companies that put a premium on skilled, disciplined execution. These organizations value executives’ ability to deliver equally if not more than their ability to craft a vision or offer strategic insights. Chuck Knight, the long-serving CEO of Emerson Electric, who produced a twenty-seven-year string of quarterly improvement in earnings per share, summarized this perspective in a *Harvard Business Review* article written over two decades ago: “The basis of [our long-term success] is management from minute to minute, day to day, week to week. . . . [W]hat we do at Emerson to achieve consistent performance at high levels is just solid management, rigorously executed.”

It was true then, and it remains true today: The ability to get things done—on time, on budget, at quality, and with a minimum of variability—is a cornerstone of corporate success. ■

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OF ILL REPUTE

JON MACEY LAMENTS THAT NO ONE ON WALL STREET SEEMS TO CARE ABOUT REPUTATION ANYMORE.

BY MATTHEW BUDMAN

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

WHAT DO YOUR CUSTOMERS AND BUSINESS PARTNERS THINK OF YOU? REPUTATION IS INTEGRAL TO HOW COMPANIES DECIDE WHETHER AND HOW TO DO BUSINESS WITH EACH OTHER, AND HOW CONSUMERS CHOOSE BETWEEN FIRMS. BUT ACCORDING TO JONATHAN R. MACEY, SAM HARRIS PROFESSOR OF CORPORATE LAW, CORPORATE FINANCE, AND SECURITIES LAW AT YALE UNIVERSITY, REPUTATION MEANS A LOT LESS THESE DAYS, PARTICULARLY IN THE WORLD OF FINANCE.

As a substitute, companies increasingly depend on regulators to protect them from potential hazards—even though regulation isn't what it used to be either. And corporate implosions have ever-smaller impact, to the extent that executives are no longer permanently tainted by association with prominent failed employers. "Companies collapsing from scandals used to drag their leaders down with them," Macey writes. If you've ever wondered why the people who seem to be responsible for massive failures seem to emerge unscathed . . .

Macey, author of *The Death of Corporate Reputation: How Integrity Has Been Destroyed on Wall Street* (Pearson/FT), spoke via Skype from his home in New Haven, Conn.

IN WHAT WAYS DOES REPUTATION PLAY OUT DIFFERENTLY ON WALL STREET THAN IN THE REST OF CORPORATE AMERICA?

Think about the distinction between a company that is manufacturing automobiles or refrigerators or software versus a company that's recommending securities. If I'm selling refrigerators and I want to make a reputation for myself, I'll offer a strong warranty; I'm telling people I have a good manufacturing process, and I can stand behind the products that I build.

On the other hand, if I'm recommending a security and somebody buys that security at a price of 10, and it goes down to 5, there's no way I can issue any sort of a warranty that'll make things right for the person purchasing it, particularly if I'm selling a lot of securities or an entire IPO. And if the share does drop in price, it's not clear whether it's my fault: Did I give bad advice, or did some strange thing happen in the interim?

It's easier for companies in the real economy to put their money where their mouth is, and manufacturers take full responsibility for how their products perform; it's not a matter of the market perception affecting price or things like that. The market for reputation actually is working pretty well in the manufacturing space, what I'd call the real economy or mainstream economy, much better than it is in the financial world.

YOU WRITE THAT, IN FINANCE, "REPUTATION NO LONGER MATTERS TO SURVIVAL. . . . FIRMS THAT APPARENTLY LACK ANY REPUTATION AT ALL CONTINUE NOT ONLY TO SURVIVE BUT TO THRIVE." DO YOU FEEL THE RAMIFICATIONS OF LOSING REPUTATION SHOULD BE MORE SEVERE THAN THEY ARE?

Well, I think they're very severe for the *economy.* But I definitely think the economy would be much stronger if reputation mattered more to firms in the financial industry.

YOU DISCUSS THE ACCOUNTING FIRMS IN PARTICULAR AS BEING GOVERNED BY REGULATION, NOT REPUTATION.

The accounting firms have transitioned from a reputational model, where companies got audits because investors required that an independent third party come in and verify that the company was real—that it actually had sales, that sales were what it said they were, that reports of earnings and assets and shareholder equity were not just made up. Now we have a regulatory model, where companies get audits because the SEC *requires* them to, so it matters less what people think of the accounting firms.

And look at credit-rating agencies. It used to be that no one would ever hire a credit-rating agency unless it had a good reputation, because you have to pay the agency, and what you're paying for is a rating, and if the rating doesn't convey a credible signal—if people don't trust it or believe it—then why pay for it? Nowadays, no one really trusts credit ratings. People now buy credit ratings notwithstanding the fact that they have little or no informational advantage. Why? Because a whole bunch of obscure regulations make it difficult or impossible for investors to buy securities unless they get these ratings.

I WANTED TO TALK ABOUT REPUTATION AND INDIVIDUAL EXECUTIVES. FROM THE DREXEL SCANDAL, YOU CONCLUDE THAT "PEOPLE'S PERSONAL REPUTATIONS ARE NO LONGER FIRMLY AND INEXORABLY LINKED TO THE REPUTATIONS OF THE FIRMS THEY WORK FOR," AND THAT PEOPLE WORKING FOR FIRMS INVOLVED IN SCANDALS HAVE NO TROUBLE MOVING ON TO "SIMILAR WORK AT OTHER COMPANIES."

Certainly things are bad if you're indicted, as David Duncan was at Arthur Andersen or Andy Fastow at Enron or Dennis Kozlowski at Tyco. But if you manage to avoid indictment—or sometimes, as with Michael Milken, even if you do get indicted—you can bounce back.

WELL, SURE, YOU *CAN* BOUNCE BACK. BUT SHOULD IT BE THAT EASY? IN THE BOOK, YOU WRITE, A LITTLE INCREDULOUSLY: "PEOPLE CAN WORK FOR FIRMS THAT IMPLODE IN A TSUNAMI OF SCANDAL AND, AS LONG AS THEY ARE NOT LITERALLY IN PRISON OR OTHERWISE PHYSICALLY INCAPABLE OF OTHER EMPLOYMENT, AFTER THE IMPLOSION THEY CALMLY AND EFFORTLESSLY MOVE ON TO OTHER, SIMILAR EMPLOYMENT."

It's a good thing in the sense that the people who aren't directly to blame for financial scandals and crisis are unaffected by it. It's a very different situation than when the accounting firms and the investment banks and the law firms were all general partnerships, where each partner was personally liable for any professional misconduct by any of the partners in the firm.

BUT WHY DO HR DEPARTMENTS KEEP HIRING THESE PEOPLE? AREN'T THOSE RÉSUMÉ ENTRIES RED FLAGS?

No. What HR people care about is people's ability to generate a book of business. So as long as someone's not banned from doing his job, he can still generate revenue for the firm, and he'll get hired. It's all about the bottom line.

IT SEEMS A PRETTY LOW BAR TO CLEAR.

It's very low, absolutely.

DO YOU GET THE SENSE THAT JOB CANDIDATES IN SOME FIELDS USED TO CONCEAL PREVIOUS EMPLOYMENT WITH SCANDALOUS COMPANIES, AND NOW THEY DON'T BOTHER TO?

Well, it's harder to hide, since our technology is so much better. I think people in the middle of a scandal used to just withdraw from the job market. They don't do that anymore. One of the great things that distinguishes the United States from, say, France or Italy is that it *is* possible to bounce back. And that's usually a good thing: Think of CEOs of successful tech firms—most of these guys have been CEOs of firms that failed, and they learned from their mistakes. But it's *not* a good thing when people just completely ignore the past, including evidence of moral failings and indications that someone's not ethical. It's important to distinguish those things.

YOU WRITE THAT ON WALL STREET, "PERSONAL REPUTATION HAS REPLACED FIRM REPUTATION AS THE RELEVANT ANALYTICAL POINT OF REFERENCE." DO MOST INDIVIDUALS HAVE CLEAR ENOUGH BUSINESS IDENTITIES THAT EMPLOYERS CAN IGNORE OR OVERLOOK PREVIOUS EMPLOYERS ALTOGETHER?

To a large extent, people now have individual reputations that are not connected with the reputations of the companies they work for. And they don't really care whether those companies suffer a slip in reputation, so long as they themselves don't suffer a slip in *personal* reputation. That's why we see people who used to work at Enron or Arthur Andersen or Lehman Brothers or Dewey & LeBoeuf go on to other things—the failure of the firm has no effect on their professional careers.

SO AS LONG AS SOMEONE'S NOT BANNED FROM DOING HIS JOB, HE CAN STILL GENERATE REVENUE FOR THE FIRM, AND HE'LL GET HIRED. IT'S ALL ABOUT THE BOTTOM LINE.

YOU ARGUE THAT REPUTATION IS CRITICAL TO THE FINANCIAL SYSTEM FUNCTIONING. WHAT DOES IT MEAN THAT COMPANIES AND EXECUTIVES SEEM TO PAY SO LITTLE PRICE FOR HAVING POOR REPUTATIONS?

At some point, it's really going to matter. Think about why a company like Procter & Gamble and Gibson Greeting Cards—two companies that have been stunned by doing business with Wall Street—would enter into a complex hedging transaction, or a currency swap, with a problematic firm like Goldman Sachs or Bank of America. There are three reasons. First, the people doing these trades believe that they're going to be protected by regulation, that the SEC will come in and prevent them from being ripped off. Or they may think, "We're just as smart as anyone else in the room—we can figure out the various permutations and hidden pitfalls in this transaction; we can fend for ourselves." Or, third, they can trust the reputation of the people they're dealing with.

None of those three is going to protect the corporation. Executives can't really believe that regulation is going to protect them; we all saw what happened with Bernie Madoff. They can't really believe that they understand these incredibly complex financial transactions. And based on the reputations of Bank of America and Goldman, there's no reason to think that these firms will do anything other than milk every possible penny out of a trade. So companies should be leery about working with the likes of Goldman—and soon these guys are going to run out of people to do business with. And that's a problem. ■

JOHN BUCHANAN is a journalist, author, and screenwriter. He lives in Cocoa Beach, Fla. His last article for the magazine was "The Next 90 Days," in the Spring 2013 issue.

WARNING SIGNS

JUST BECAUSE PEOPLE HAVE A BAD FEELING ABOUT THE COMPANY DOESN'T MEAN THEY'LL BE READY WHEN DISASTER STRIKES.

BY JOHN BUCHANAN

SOMETIMES COMPANIES IMPLODE, SPECTACULARLY, WITH LITTLE WARNING, IN A BLAZE OF CNBC HEADLINES, HASTILY ARRANGED PRESS CONFERENCES, HEATED ACCUSATIONS AND DENIALS, SHAREHOLDER LAWSUITS, CALLS FOR CONGRESSIONAL HEARINGS, AND PHOTOS OF DAZED EX-EMPLOYEES HOLDING FILE BOXES IN FRONT OF THE HQ BUILDING. ENRON, WORLDCOM, LEHMAN BROTHERS, TYCO . . . YOU KNOW THE NAMES.

But more often, failing companies do so gradually, under pressure from disruptive technologies, global competition, demographic shifts, and/or bad management decisions. Quarter after quarter, executives, mid-level managers, and rank-and-file employees carry on as if the chart arrows angled upward instead

of downward, crafting optimistic internal memos and investor reports.

Of course, upbeat projections and rah-rah rhetoric eventually clash with reality. "I remember the sound of walking down the hallways at Kodak on those old floors," says Dana Manciagli, who joined in 1996 as VP of worldwide marketing only to watch one of America's most iconic companies self-destruct after failing to comprehend the existential threat of the digital imaging technology that would transform—and effectively end—the film-based photographic and movie markets Kodak had dominated for a century. "It just felt so out of date inside that building," she says. "Even the logo, when you drove up to the headquarters in Rochester, seemed out of date. The whole culture of the company, the low energy level, just seemed out of date. It didn't feel like a technology company. And for me, that was one of the 'aha' moments. They just weren't moving fast enough. There was no pep in their step, as there is in thriving companies. Everything about the company and the culture was slow and tired."

Lynore Abbott had a similar experience at Polaroid, where she worked for five years as a project manager. Like Kodak, the revered company failed to successfully transition to the digital age. "The first year, I just thought of it as difficult going," Abbott says. "Then, when I experienced the first wave of layoffs, I realized what was really going on. Then I started to realize the places we were trying to get to as a business—and to understand that we weren't really making any real strides in those directions."

As Polaroid's market position worsened, so did Abbott's level of frustration. When she joined the company in 1992, it had twelve thousand employees. By the time she left in 1997, there were half that many. "In that kind of environment, it can be very difficult to motivate your staff," she says. "People start thinking, 'In another year, only half of us will be here.'" In fact, her team dwindled from fifteen technicians down to just three. "That makes it hard to maintain a productive work environment," she says. "People spend too much time worrying about the future. And when they're concerned about the survival of their jobs, they are not as creative as they are in a healthy environment. And the situation just gets worse and worse when you see management going behind closed doors to try to figure out a way to do something about the problems. That just makes people think they will lose their jobs even faster."

Even worse, Abbott says: The best and brightest employees seem to grasp the deteriorating circumstances first and jump ship the fastest, exacerbating an already bad situation.

It also creates a painful personal experience for anyone who has opted to be loyal and stay. "That's because they have invested so much time and energy into the company," says Mark DeVerges, practice leader at Asheville, N.C.-based executive recruiter Kimmel & Associates, which specializes in the notoriously boom-and-bust construction industry. "To see your company suddenly go in the opposite direction of the one you've become accustomed to causes all sorts of Monday-morning quarterbacking. You start wondering whether there is something more you could have done, or whether there was something happening that you weren't paying enough attention to. And most people tend to think that way, even if it was decisions made above them that really caused the problem. But no matter how it has happened, they almost always wonder, 'What could I have done differently?' And that causes a lot of guilt and anxiety, even though nine times out of ten it really has nothing to do with them directly."

ILLUSTRATION: DAVE CUTLER

CAN THIS SHIP STAY AFLOAT?

Of course, for any employee facing potential unemployment due to circumstances largely beyond his or her control, the next question is whether there might be some way to turn around the foundering enterprise, whether management can actually accomplish that task, and whether one is in a position to possibly make a difference. "What you should do when you raise the alarm is not just say, 'Here's the problem,'" says Abbott, now a consultant who sometimes deals with such quandaries on behalf of her clients. "You have to offer some idea of a solution. And if you do that, your supervisors or management are much more likely to listen to you."

At Polaroid, she says, many people made suggestions and tried to map out a new direction for the company. But the downward spiral had already begun—no one's recommendations could counter trends in fundamental metrics such as sales and cost structures as well as a general bottom-line disarray.

In going through the experience, Abbott realized that by nature, big companies tend to sustain established momentum and are able to move in only one direction—even if it is toward disaster. Part of the reason for that, she says, is that it takes time for distress signals to be recognized and truly understood. "And it also takes a long time for those signals to get up to the decision-makers, the people who can actually change direction," she says. "But at the same time, corporate politics tend to try to eliminate the bad news, so often it doesn't really get up to the right people."

Manciagli experienced a similarly destructive dynamic at Kodak. "Unless top executives and senior management have a mandate and financial motivations to change the direction of a company, there is nothing that executives or managers at the next levels down can do to overcome cultural barriers," she says, adding that she made numerous attempts to leverage her hefty job title in order to motivate Kodak to face the digital threat head on. "But," she says, "once my direct manager got stuck between 'change' and 'no change,' he reverted to the company's traditional thinking and toed the old guard's line."

Meanwhile, notes Michael D. Teare, a former senior VP of a major construction company who experienced back-to-back implosions over a six-year period, there is often a good practical reason why senior executives are reluctant to intervene in a volatile, dangerous set of circumstances. "As you move up in a company, in a sense the more vulnerable you become," he says. "The larger your title, the bigger the bull's eye on your chest." Roll the dice on pushing a radical solution to a potentially catastrophic situation, he suggests, and you are as likely to be out on the street as you are to be hailed as a hero.

Although startups or smaller companies, by nature, are more nimble, Abbott says, politics and an aversion to bad news often silence rank-and-file managers who spot trouble and try to do something about it.

"And," Abbott says, "in my experiences of implosions, even if management wants to regroup, they don't know how to do it, so they just work harder on the bad plan that is causing the company to fail." In other cases, most notably startups and young enterprises, Abbott has also observed that a lack of trust between investors and the management team prevents them from actually working together to find a way to turn things around.

For Teare, the unexpected and painful end came suddenly, as the immediate result of a single decision by the owner of the privately held company Teare had helped lead for a decade. When the company lost its ability to bond projects through its longtime service provider, the owner refused to assume personal responsibility for future bonding obligations—and, in effect, killed his own company overnight.

After that debacle, Teare faced a second implosion six years later when another major construction company he had helped build collapsed under the weight of the 2007-08 industry downturn.

Post-Polaroid, Abbott moved on to another company that failed when an industrywide recall of a key component undermined its telecom business.

Teare and Abbott's point is that a successful company can collapse very quickly as the result of a single development rather than a longer pattern of erosion. But either way, the damage is done.

However, Bill Westwood, senior partner in Korn/Ferry International's leadership and talent consulting practice in New York, cautions against pessimism and resignation: There are plenty of well-known examples (Apple, anyone? General Motors?) of enterprises that survived the onslaught of threatening circumstances—along with predictions of doom and even Chapter 11 filings—to survive and flourish again.

As an example, Westwood cites a veteran industrial supplier that went through bankruptcy and is today healthier than ever. "They made the turnaround work with a great number of executives who were onboard and who went through that fire of downsizing, diminishment, plant closings, reductions in force—all of those very traumatic things," he says. "For those executives who chose to stay and remain in the cauldron, it was a very challenging and difficult time. But what you saw in those who were successful was that they had the agility to re-envision a different company. And secondly, they had the kind of resilience that allowed them to live up to that old saw, 'It's not the challenges that are presented to you, but how you respond to those challenges, that differentiates the successful from the unsuccessful.'"

SHOULD I STAY OR SHOULD I GO?

Once someone realizes that his or her employer is teetering on the verge of extinction, the most obvious question becomes whether to look for a new job or take a gamble based on loyalty. "In situations where a company is taking on water, a lot of executives are worried about being seen as abandoning their organizations, especially if they've put in many years," DeVerges says. "But they are also concerned with how to balance that with an understandable desire not to go down with the ship and drown."

Although situations vary, he advises, a basic commonsense rule is "the sooner you get out of a failing company, the better."

Korn/Ferry's Westwood disagrees with such a blanket assessment and again invokes the example of the industrial vendor that came back from the dead. "An important part of that was a group of executives who were willing to look at themselves and say, 'We didn't get things all right, and we need to open our minds to a reconceptualization of this company," he says. "'Those of us who are willing to live with that uncertainty and ambiguity should remain. And those of us that yearned for the company of old should go.'"

However, says Dana Manciagli, who retired from Microsoft earlier this year after a ten-year stint and now consults with executives facing similar situations, the practical equation is not quite that simple either. Before she decided to leave Kodak, she wrote memos and consulted with co-workers and superiors to try to find a cure for the company's worsening illness. She made a conscious decision to try to stay and fight, to make a difference. But nothing she did got any meaningful attention from anyone in a position to affect change. Instead, she was told to "slow down." At that point, she says, she knew the company's days were numbered.

Ironically, she says, it was Kodak's long history of phenomenal success that turned out to be its worst enemy. "The board and top management just saw the P&L statements," she says. "The company was so profitable and the margins were so high on film and the company was making so much money that nobody in a leadership position thought anything could ever go wrong." By the time they realized that possibility, things had gone too wrong to be fixed.

Teare faced an entirely different situation and reacted according to a different set of considerations. Once his owner elected to effectively kill the company rather than accept personal

The sooner you get out of a failing company, the better.

financial responsibility for bonding its construction projects, other contractors began cherry-picking the jobs and taking with them the key people involved.

Teare chose not to be a party to that kind of transition, even though he had that option. "I was not going to be part of disassembling the company piece by piece," he says. "So I just watched as others stepped in and took over the things I had worked on for ten years."

Because of his particular history as an architect of the company's success and growth, Teare suffered great discomfort at the scenario unfolding in front of him. "I had started out as a senior project manager," he says. "Then, as I moved up to operations manager and division manager and VP, I was responsible for hiring and training most of the people in the organization. I had hired a lot of those people right out of college and I had come to know them very well. I had watched them grow up and get married and have children. So it wasn't a matter of just looking at them and seeing a bunch of Social Security numbers. I knew them as people. That was one reason why when they started cutting back, I told the owner I wanted to be one of the first people out the door. And one reason I said that was that I didn't want to be put in the position of having to choose who stayed and who got let go, because they were all important to me."

He acknowledges that some hard-nosed veterans of the corporate trenches might dismiss him as an idealist who refuses to accept the cutthroat reality that is sometimes at the center of such situations. "But what I'd say to them is that you have to make decisions about the way you're going to live your life and the kind of person you're going to choose to be," he says. "And I had always lived my life by what I thought was a code of fairness and justice. And it has served me very well throughout my career."

Throughout his career, like many construction executives, he had laid off people during economic downturns. And he fully understood that came with the turf in his industry. "When it was me who got to make the decision, I had no problem with that," he says. "But when bonding companies come in and take over operations of construction companies, it's no longer the people like me that get to make those decisions. It's the bankers. And people start making decisions on how to restructure the company based on what bankers or accountants say. That's what I had no interest in being a part of. I made the decision when I knew we could no longer go forward as a company and that it was going to be a dogfight with people trying to keep their paychecks—and that it was no longer going to be the same kind of organization

PAYING IT FORWARD

Although an organizational implosion is, by definition, a traumatic experience, if understood and explained properly, it can be transformed into a perceived benefit for your future employers.

One obvious rule is to be diplomatic in terms of how you analyze and discuss your failed former company. "When you're on an interview, you shouldn't focus on what went wrong at your former company," says Lynore Abbott, who watched from inside as Polaroid began to self-destruct, then went on to experience other implosions. "You should focus entirely on yourself and what you can do for the prospective company you're talking to. And if you're going to talk about your past or current situation, you have to flip those circumstances into an example of the things you will be able to do for your new company, in terms of bringing new ideas or being a leader, based on what you've learned. And based on the experience you've been through, you should talk about the kind of organization you want to be a part of in the future."

Executive recruiter Mark DeVerges seconds that opinion. "If the ship went down," he says, "you should outline the things you did to try to seal up the hole in the hull. And if it is something like an Enron, where people were taken out in handcuffs, you have to be able to show how far you went to make sure you were not one of them."

And your ability to do that successfully will largely depend on your history of networking. "The more people who know you and trust you," DeVerges says, "the better off you are as a candidate. And if you have enough people that will talk favorably about you and the value you bring to a company, you can even overcome the fact that you have Enron on your résumé."

However, Abbott says, the overarching principle is to make sure you have learned from your prior experience in a way that will help you and your new employer in a similarly threatening situation in the future.

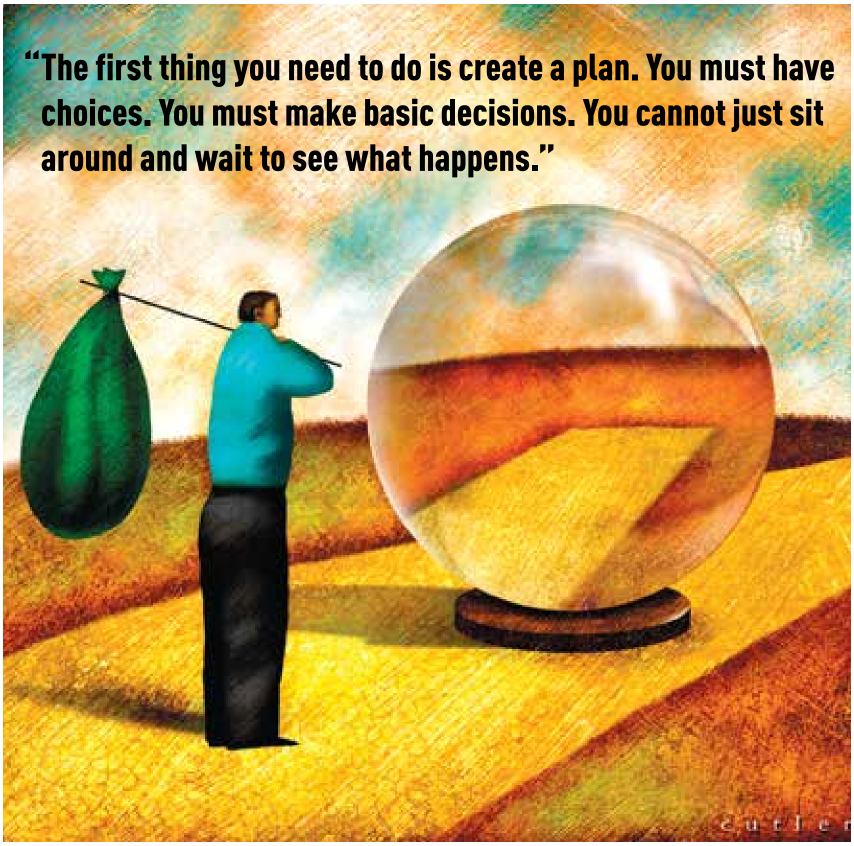
"What I realized is that you have to become hyper-aware of the types of market conditions and internal situations that can lead to implosions," she says. "And if your management team is not strong in terms of dealing with those things, or they are in denial, you need to jump ship as soon as possible."

—J.B.

I had helped build."

While dropping out of corporate life is certainly an understandable choice at one end of the spectrum of possibilities, Jane Stevenson, Korn/Ferry's vice chairman of board and CEO services, says there is another at the other end. "If you're in one of these situations," she says, "you have to evaluate whether you can play full-out in the environment you're in. For example, sometimes those difficult situations can be defining moments in your career, when you have an opportunity to really step up and make a difference and shape an outcome for the company. If, on the other hand, you're simply looking at the security of your paycheck, I think that will minimize what the future holds for you in that situation."

Her colleague Westwood offers a companion observation. "If you don't believe you're someone whose views or actions are going to be able to contribute—for example, if you've been marginalized in some fashion or your scope of influence has been dramatically limited," he says, "that is clearly going to affect your decision as well."



GREENER PASTURES

Once a decision has been made to abandon a sinking ship—or you're already out on the street—a carefully crafted process is essential to your survival, says Manciagli, author of *Cut the Crap, Get a Job! A New Job Search Process for a New Era*.

"The first thing you need to do is create a plan," she says. "You must have choices. You must make basic decisions. You cannot just sit around and wait to see what happens. You must have a clear goal and a well-thought-through plan for reaching that goal. Most people wait too long to do those things. And there is nothing worse than a desperate executive out looking for a new job."

An effective process has three steps, Manciagli says. The first is simply accepting the fact that your current employer is on a steep downward trajectory and that it is time to leave. The second is an aggressive search for a new job. And the third is finding the right opportunity and taking full advantage of it by leaving your emotional and psychological baggage behind.

Stevenson adds that another key ingredient for success is the people in your network. "You have to build on the credibility you have developed among the people who know you," she says. "That's the only way I know of around circumstances like these."

It goes without saying, DeVerges adds, that the worst time to look for a new job is when you desperately need one, "especially if you have to take whatever you can get in order to pay your mortgage next month."

As his poster boy for that point, DeVerges cites a former CFO of another major construction company toppled by the 2008 economic downturn. He went from a $2.4 million salary to $350,000 as a vice president of finance at a smaller company. And it took him a year to land that job.

In most instances where an executive is suddenly out of work, DeVerges says, the ugly truth is that the bigger your now-former paycheck, the harder and less likely it is you will make anywhere near that much in your next job.

"The thing I always talk about is that in a bad situation, it's better to have options and not exercise them than to not have any options," DeVerges says. "And in those kinds of situations, there are only two possibilities. Either the ship is going to right itself or it is going to sink. If it is sinking and the executive is going to be in the water, it's better to have someone like us in tow, with a life preserver, rather than being completely off our radar at that point in time. And once someone comes running to our door in a panic, it's usually too late to be able to help." ■


PERFORMANCE
MISMANAGEMENT
TO GET RESULTS,
STOP MEASURING
PEOPLE BY THEM.
BY VADIM LIBERMAN
WESTCOTT
RULER

VADIM LIBERMAN is senior editor of *TCB Review*. He hates performance appraisals as much as you do.

THE STATE OF PERFORMANCE MANAGEMENT SUCKS. YOU KNOW IT. EVERYONE KNOWS IT. THAT'S WHY YOU'RE NOW READING YET ANOTHER ARTICLE ABOUT HOW MUCH PERFORMANCE MANAGEMENT SUCKS.

Here's the truth: It really does suck.

Each year, a performance-appraisal form taunts you to conjure objectives. Because goals within a company usually cascade down from the top (or occasionally the reverse), devising your own—and coaching your staff through theirs—feels like pressing into a jigsaw puzzle pieces that don't quite fit, no matter how hard you pound them into place. Still, you carefully craft targets that you hope to (and are fairly certain you can) achieve, by the announced deadline, or invite an avalanche of increasingly urgent missed-deadline HR memos.

"There's a lot of pain in performance management," laments Julie Jasica, a senior consultant for Towers Watson.

There sure is. Tyranny by numbers menaces performance management, inciting animosity, bitterness, cynicism, and mistrust. While most executives recently surveyed by the Society for Human Resource Management agree that performance management should develop employees and optimize how people work, they concede that it really serves primarily administrative purposes related to compensation, hiring, and firing. More than 70 percent of respondents report that their system fails to effectively establish goals or bolster performance.

NO DETAILED FLOWCHART OR POWERPOINT EXPLANATION WILL EFFECTIVELY PATCH A BOTCHED GOALS PROCESS.

That's the good news. The bad news is that organizations are using Band-Aids to make repairs, not realizing that they can't fix what isn't broken—because it never worked. "Performance appraisals should help people succeed," says management consultant Aubrey Daniels. "Most performance-management systems don't do that." And no detailed flowchart or PowerPoint explanation will effectively patch a botched goals process.

Granted, there's nothing inherently wrong with "management by objectives," a goals-centric approach to strengthening a workforce. But most businesses do not really manage by objectives. They manage by results, evaluating managers and workers against goals deliberately drafted to yield all kinds of easily countable dollar digits and percentage points.

So what? Everybody knows that you need a results-oriented culture to succeed. But what if everybody is wrong or, at least, not totally right? What if focusing on results is not the best way to get results?

We've gotten overly accustomed to and enslaved by the unfair, illogical, and counterproductive notion that attaining results requires appraising people based on attaining results. It's time to consider reconfiguring performance management around input, *how* one works, rather than output, what one produces—that is, judging people less on results and more on behaviors related to problem-solving, innovation, creativity, innovation, ethics, and other attributes. That means assessing salespeople not on whether they sold anything but on whether they exhibited skills and competencies and followed processes that normally lead to closing deals. It means evaluating your advertising team not on whether a client bought a campaign but on how your people went about creating it. It's examining how your marketing manager launched a social-media initiative rather than page views garnered.

"If you really want to develop people, then pushing harder on behaviors and input is a really easy place to land," Jasica says.

Now, your organization may already do this or, at least, aim to do this. But most likely, there's an implicit—if not outright—understanding that the ends if not justify then at least supersede the means. "Companies don't look at behavior enough, and when they do, they think it's trivial," Daniels says.

Then, too, a job's *how* is more challenging to gauge than its *wha*t, especially given that many of us work remotely nowadays. However, since behaviors actually drive results, it's *because* we're on our laptops at Starbucks that businesses must strive harder to revamp performance management around traits. To do so, it's worth pondering the goal of goals.

WHEN SMART IS NOT

"Warning: Goals may cause systematic problems in organizations due to narrow focus, unethical behavior, increased risk taking, decreased cooperation, and decreased intrinsic motivation." So proclaims "Goals Gone Wild: The Systematic Side Effects of Over-Prescribing Goal Setting," a seminal paper by professors Lisa Ordóñez, Maurice Schweitzer, Adam Galinsky, and Max Bazerman.

If the authors were merely cautioning against specific types of objectives, you'd nod in agreement—because *obviously* performance management rests on setting the right sort of goals. But they go a step further and indict goal-setting in general, which may leave you shaking your head sideways. To disregard the authors' claim, though, misses a relevant implication: Constructing objectives around results may aggravate potential problems fundamental to goal-setting.

You may already be thinking that a performance management program's success hinges on having the right conversations with your subordinates and your boss. Let's be real. If all it took were regular sit-downs, we wouldn't dread the annual process and lament its various failures. Many well-meaning managers and employees are already talking. Such discussions, however, are only as fruitful as the corporate performance-management framework allows. If a system ultimately bases appraisals on results, then meeting them will guide the dialogue.

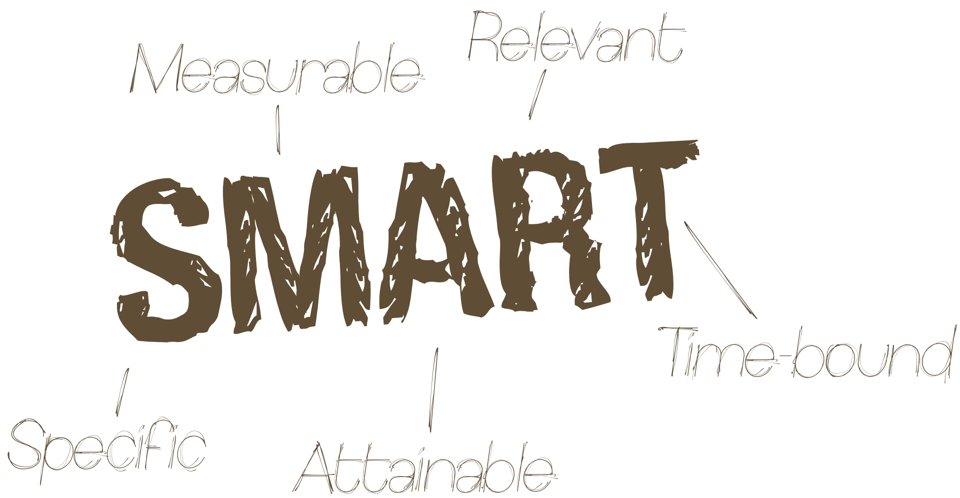
Often, objectives are SMART: specific, measurable, attainable, relevant, time-bound. Or SMARTER: evaluate, re-evaluate. (Warning: Great ideas rarely constrict themselves into neat acronyms.) The following pitfalls are not exclusive to SMARTEST (yes, it exists too) goals or focusing on results—they're just more probable when you do.

Specific. By their nature, objectives "direct attention and effort toward goal-relevant activities and away from goal-irrelevant activities," point out researchers Edwin Locke and Gary Latham. So when you ask someone to set a target, expect two things: (1) The person will focus on meeting that target. (2) Gorillas will become invisible.

That's what professors Christopher Chabris and Daniel Simons discovered when, in 1999, they asked people to watch a now-classic video of two groups of basketball players, one wearing white shirts, the other wearing black. Chabris and Simons told viewers to count basketball passes only among players in white. Turns out, people were so focused on their

WARNING

GOALS MAY CAUSE SYSTEMATIC PROBLEMS IN ORGANIZATIONS DUE TO NARROW FOCUS, UNETHICAL BEHAVIOR, INCREASED RISK-TAKING, DECREASED COOPERATION, AND LOWER INTRINSIC MOTIVATION.



singular assignment that they failed to spot a man in a gorilla suit pounding his chest at one point. Similarly, meeting specific goals can blind workers to the 400-pound gorilla in the room, be it a risk or an opportunity.

Meanwhile, professors Barry Staw and Richard Boettger highlight the benefit of *not* setting explicit aims. When they asked students to proofread a paragraph, they found that those told to "do your best" were likelier to catch *both* grammar and content mistakes than individuals instructed to fix *either* grammar or content. In a workplace, you can imagine some SMARTEST-ass employee explaining, "That wasn't part of my goals" or, worse, "That's not my job."

Measurable. We continue emphasizing employee output mostly because we always have. Tallying widgets shipped, products sold, reports written, clients gained, dollars saved, dollars earned, dollars lost—that's not complicated. Figuring out how it all happened and appraising as a result? Go ahead, let out your hopeless sigh.

"Companies naturally want to default to the easiest system because then they don't have to create new tracking methods," says Paul Hebert, VP of solution design at talent-management consultancy Symbolist. Consequently, they stick to basing ratings on results because—you know the saying—what gets measured gets done. Actually, what is *simplest* to measure gets done. When researchers Stephen Gilliland and Ronald Landis gave study participants multiple quality- and quantity-related goals, people abandoned the former to meet the latter objectives, demonstrating a propensity to tackle easier-to-measure targets.

Unfortunately, adds Lisa Ordóñez of The University of Arizona's Eller College of Management, "The easiest thing to measure is not the most important thing."

Attainable. "So long as a person is committed to the goal, has the requisite ability to attain it, and does not have conflicting goals, there is a positive, linear relationship between goal difficulty and task performance," point out Locke and Latham. The intuitive sensibility of this is nevertheless practically impractical, burdened by the claim's numerous qualifiers, the most glaring being a "conflicting goal" lurking in your wallet.

The better your appraisal, the more money you stand to earn, so rather than create genuine stretch goals, you can set bars too low, knowing that making the numbers also means making other numbers in your bank account. "Your weakest performers are going to latch on to the *attainable* part of SMART and set goals completely within their comfort zones," says performance-management consultant Dick Grote.

Furthermore, employees who pursue difficult goals don't achieve them as often as those who set and meet easy targets, but those with hard objectives nonetheless perform at a consistently higher level. The irony, then, is that by rewarding people for meeting goals, you encourage them to pick less demanding ones and therefore miss out on better performance had they chosen tougher targets. Meanwhile, any employee who consistently meets objectives, year after year, is a really good psychic or someone who's internalized the company's not-so-hidden message: Go small or go home.

Relevant. To whom? For years, corporations have foisted upon people a system of lateral, horizontal, cascading, you-name-it objectives within objectives within objectives, leaving many workers imagining ways to make their roles appear relevant by finessing and twisting perhaps less relevant goals.

"It's good to know a boss's goals, but not all are going to trigger goals for subordinates," Grote explains. "Goal-setting should be independent of that. If the company is rigid about cascading goals, areas may be overlooked."

Time-bound. Ordóñez and her colleagues write in their paper that people may "perceive their goals as ceilings rather than floors for performance." For example, they continue, "a salesperson, after meeting her monthly sales quota, may spend the rest of the month playing golf rather than working on new sales leads." Then, too, given the pace of change, your objectives may be valid for longer than a year or shorter than a week—which is why good performance management must encourage managers and subordinates to continually assess, alter, and track progress toward targets. Still, it should make you wonder: If you're willing to move the goalposts at any point—which you should be—maybe it's time to change the rules?

UNINTENDED CONSEQUENCES

Picture a call center where workers must handle a certain number of calls per hour. "A logical way to meet your goal is to hang up on people before resolving their problems," Paul Hebert says.

Worse things have happened when companies have stressed the importance of one kind of outcome but got another, like when MiniScribe workers shipped masonry blocks instead of disk drives. Or when Bausch & Lomb employees falsified accounting statements. Or when managers "approved" unperformed safety checks to accelerate the introduction of the Ford Pinto. Or when Sears auto-repair workers overcharged for (sometimes unnecessary) work. Sears then-chairman Edward Brennan apologized that a "goal-setting process for service advisers created an environment where mistakes did occur." No, actually. These were not mistakes but foreseeable (not justifiable) consequences of the company's real error—heavily emphasizing results. Had Sears and other corporations appraised people more on how they worked rather than meeting targets, they could have spared themselves mention here and elsewhere.

Still, even the best intentions can backfire. Ordóñez recalls an organization that financially rewarded whistleblowers. "Guess what happened?" she asks. "Someone blew the whistle by lying."

"If you can make $1 billion by meeting certain targets, you might screw over people and maybe family members. The money will make up for apologies later," Hebert says. Companies don't really think through what could happen when they offer certain incentives for certain goals."

(Incidentally, to say that the problem lies not with results-oriented goals but with compensation is a non-starter—because every company links performance appraisals with remuneration to some degree, as it should be. No one's arguing to ignore better ways to pay people, but before you fill the cart, you need to ensure that your horse can pull it.)

Beyond ethical infractions, concentrating on easily measurable numbers may corrode not-so-easily-measurable variables related to interpersonal relationships, corporate culture, creativity, innovation, and positive risk-taking.

For instance, consider the effect on learning. Research indicates that a do-your-best instruction more effectively helps employees learn new tasks than using outcome-based goals. Similarly, other studies have found that negotiators with goals are likelier to reach an inefficient impasse than negotiators who lack goals, according to "Goals Gone Wild." The authors add, "It is also quite easy to imagine that in a very different context, a negotiator who has obtained concessions sufficient to reach their goal, will satisfice and accept the agreement on the table, even if the value maximizing strategy would be to continue the negotiation process."

Furthermore, results-based objectives may ruin teamwork and collaboration. "If you push too hard on results, you risk creating an environment where every person is out for themselves and there may not be the kind of brainstorming and idea-sharing you want," Julie Jasica points out.

The bottom line is that if you're ultimately judging people based on results, it's not enough simply to expect employees to act in certain ways. If what gets measured gets done, then what doesn't get measured doesn't get done. "There's an unspoken belief that if we put the right strategy and technology in place and make the right organizational-design decisions, people's behaviors will naturally follow. In fact, they do not," says Steve Jacobs, senior partner at performance-management consultancy CLG. You need to track certain traits if you want employees to exhibit them—and not merely by including on an appraisal sheet a few lame checklist items that everyone knows count far less than results-centered goals.

BEHAVIOR MANAGEMENT

There's sometimes a misconception that managing for behaviors centers around time and effort. It does not, says Ed Lawler, director of the University of Southern California's Center for Effective Organizations; he adds that "doing so puts you at risk for rewarding people who aren't well-trained or are doing things the wrong way."

That said, it's often unclear how to measure which behaviors in which jobs. Take sales. Perhaps no field defines success based on results more. A good salesperson is someone who, well, sells.

Not exactly. No business wants its sales staff intimidating clients, making empty promises, or violating corporate values, so a lot depends on *how* one makes deals. But admitting the obvious must entail entertaining the question that if behaviors influence one's performance, shouldn't they determine one's performance assessment?

"The problem is that some performance-management systems organized around selling roles focus too heavily on end results, which doesn't enable a person to understand what influences them," explains Julie Jasica. If you're mainly looking at results, you'll never know why something goes wrong or how to replicate what goes right.

Instead of tracking performance against sales goals, you're better off reviewing the actions typically necessary to make deals: placing calls, pursuing leads, crafting pitches, conducting research, networking, etc. The point isn't to create sub-goals to excuse missing end targets. Rather, you're identifying role-relevant activities without vowing to make X calls, Y sales pitches, or attend Z conferences—all of which is measurable, of course. Except you're not affixing numerical targets 365 days in advance, nor are you basing successful execution of actions on outcomes. These are not mini-results-oriented objectives. At the same time, when evaluating, "you're not just saying things like, 'This person is cooperative,'" Lawler points out. "You're identifying specific instances that demonstrate cooperation or teamwork, like, 'This person helped me solve this problem, and this is how.'" In the long run, it's a holistic, smarter-than-SMART approach to performance management.

Sure, there's a level of subjectivity here, but every performance appraisal is ultimately subjective, Grote says. "An assessment is a formal record of a supervisor's opinion of the quality of the employees' work," he points out. "The operative word is 'opinion.' It is not a testable, provable document, though it does need to be grounded in reality."

Furthermore, while assessing behaviors of remote workers can be more challenging, "there are very few jobs today where you work in isolation," Jasica points out. "I find it unlikely that the only way to measure a person who primarily works in a remote environment is through results. Unless you're in Africa growing beans, you're interacting with other people through Skype, the phone, the Internet, so it is possible to get a sense of how you work."

An uncomfortable question looms: What if, despite doing all the right things, an employee isn't getting results? There's no easy answer, except that after some time, you'll have to reevaluate a job's required attributes, find a new role for the person, or get rid of the individual.

However, that someone exhibits all the right attributes and competencies and receives positive feedback only to be let go for not getting results hardly highlights a weakness of behavior-based performance management—unless your program is really meant to fire or scare people. If, on the other hand, your aim is to develop and coach, managing for behaviors proves a better system than focusing on results, which might involve giving stellar evaluations to someone who lies, cheats, and steals but hits her numbers. Which of these two employees would you rather have working at your organization?

Here's another way to look at things. Setting goals is never the problem. It's that we choose to assess performance based on meeting them, so how about this: *Stop judging people against their objectives.* Allow managers and subordinates to set a wide spectrum of goals geared toward the organization's success. It's also perfectly reasonable to constantly evaluate targets throughout the year, but assessing goals is not the same as appraising employees based on reaching them. When it comes to rating performance, mainly look at behaviors and how people went about working toward their objectives.

Base goals on desired results and appraisals on actual behaviors. For instance, a marketing director may set objectives that include launching a new campaign. When evaluating performance, scrutinize the steps he took, the decisions he made, and the actual work he put into the projects—not whether he actually met his objectives.

"You've got to treat goals as a compass and not as a GPS to pinpont where you must end up," Ordóñez says. "Goals should inform where you're going, but if you don't reach the end point, it's not a failure per se."

To be clear, behaviors are important only insofar as they lead to desired outcomes. However, "most organizations don't realize that the only way you accomplish results is by focusing on behaviors," Aubrey Daniels explains. "Every time you move away from measuring behavior, you induce room for error in your measurements."

"ASSESSING GOALS IS NOT THE SAME AS APPRAISING EMPLOYEES BASED ON REACHING THEM.

> “By focusing on outcomes, companies continue rewarding and punishing their people for accomplishments and failures perhaps beyond their control.

LUCKY STRIKES

In his book *Drive: The Surprising Truth About What Motivates Us*, Dan Pink distinguishes between algorithmic and heuristic tasks. Jobs consisting of the former, usually lower down in organizations, involve highly repetitive work and include clear causal relationships with formulaic, straightforward steps to achieve goals. For example, you can evaluate a truck driver by whether he's driven goods to a destination or an assembly-line worker on whether he made a certain number of widgets in a specified time

Heuristic undertakings, on the contrary, demand experimenting to solve problems. In dynamic, typically white-collar fields, a myriad of variables—technological changes, customer tastes, competitors' exploits, economic rumbles, legislative disruptions, vendor activities, etc.—prohibits drawing direct cause-and-effect links to meet objectives. Pink cites McKinsey research indicating that over 40 percent of U.S. employees have roles with mainly heuristic tasks and that 70 percent of new jobs in recent years are heuristic.

The more algorithmic the duties, the more we can appraise by outcomes. Likewise, the more heuristic a job—like one that involves crafting strategies, developing campaigns, or writing articles like this—the greater emphasis we should place on behaviors. To do otherwise is to apply industrial-era thinking to modern times.

“If your business environment is stable and your industry doesn't change much and you can be sure of what lies ahead, then focusing on results can be good,” counsels Scott Anthony, managing partner at the consultancy Innosight. “But that's not the case for most companies, so as much as you want to measure output, you have to look at behaviors that are most relevant to someone's long-term performance.”

Michael Mauboussin, author of *The Success Equation* and head of global financial at Credit Suisse's investment-banking division, points out that you should assess people against only what is actually under their control. “There's a continuum of things that are pure luck on one end and pure skill on the other,” he says. “When your outcomes are truly a reflection of the work that you're doing, a results-oriented evaluation is not unreasonable, like in manufacturing, which is very skills-oriented. But things like launching a successful R&D project are inherently probabilistic, with a lot of randomness and luck to them. There are profound influences that are hard to anticipate, so you have to move the orientation away from outcome and more toward evaluating process, not because you want to dodge the outcome but because that's the ultimate way to get it.”

(As a quick aside, Mauboussin points to the irony that not only does luck increase in jobs higher up the org chart, so does compensation. “It turns out a lot of senior executives are getting paid for randomness instead of skill. It's a backward system,” he claims. The solution isn't to flip C-suite and call-center salaries, he says, but his observation is yet another reason to rein in executive compensation. Another topic, another article.)

Unfortunately, by focusing on outcomes, companies continue rewarding and punishing their people for accomplishments and failures perhaps beyond their control. “We're hard-wired to look at the outcome and then evaluate the decision, but you have to separate a decision process from a decision's outcome,” Ordóñez instructs.

When recognizing an employee, Mauboussin recommends, a manager should pause to ask: Is it reasonable to expect that things could have turned out differently despite the person's actions? If your answer is yes—and it usually will be—then you're basing rewards and recognition and compensation programs less on skill than on luck.

This can suggest doling out awards even when workers don't earn results—that is, positively recognizing failure, not

only in the sense of allowing people to fail by not punishing them so that they can learn from mistakes but actually praising them when they do stumble, provided that they did their jobs in such ways that you'd ordinarily celebrate had the outcome turned out better.

"The Mayo Clinic used to give out awards to people who took well-thought-out risks that didn't pan out. You also have 3M, which celebrates people who tried things that didn't work," Scott Anthony points out. "You shouldn't be rewarded when you did something stupid, but I do wish more companies would acknowledge people who do their best and take risks."

Still, even when organizations reward people despite the outcome, they rarely do it in the same way as when workers garner results. Someone who does a great job and produces great results might get a $5,000 check. Someone else who does a great job but doesn't produce great results may get a certificate from the CEO. However, if you're going to send a message that behaviors are important, it will take more than a little plaque to prove it—particularly since the more heuristic the task, the more important it is for companies to bolster intrinsic motivation via non-monetary rewards, writes Dan Pink. In fact, he adds that financial incentives to be creative negatively impacts performance.

Meanwhile, Dick Grote warns that even if you choose to celebrate someone's failure, others in the organization may view things differently. "It's like holding up a white piece of paper with a black dot on it," he explains. "Everyone's eye goes straight to the dot, which they will see as a problem no matter how you frame it."

Too often, companies want to automate the performance-management process as much as possible—and technology does make a lot possible. But just because you can use all sorts of software to manage your people doesn't mean that you should. "You can't slap a tech solution over a performance-management issue and assume it's going to solve it," Julie Jasica says.

And yet organizations continue to hope that there's an app that will improve their workforces. And truthfully, there are many, but at its most basic level, good performance management requires dealing with plenty of healthy subjectivity and a variety of variables beyond the scope of what computers can process—the main variables being workers themselves. "In today's knowledge economy, human beings are the means of production, and we are the most infinitely variable you can have. Yet we keep trying to walk away from the human element in the equation," Paul Hebert says.

And sure, the current state of goal-setting and appraisals works, but in an unrelenting pursuit of results, we don't pause long enough to contemplate whether the current method is the best method. And hey, managing by behaviors may not be best either, but it's probably better than the status quo. Either way, you can't know until you give it a chance—for more than five minutes. Evolving toward behavior-based performance management demands time and patience. Of course, reality being what it is, results will continue to figure into performance appraisals in ways they should and should not, but in the long term a greater focus on behaviors will lead to better results. Because after all, it's all about results. ■

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DANGEROUS DIGITS

Focusing on numbers is not the way to make them.

LIKE MOST OF YOU, I WORKED MY WAY THROUGH HIGH SCHOOL AND COLLEGE. The jobs I had covered a wide range of occupations, everything from selling T-shirts with salacious pictures on them in tacky holiday towns to mopping up spilled beer in high-volume breweries. The job I enjoyed most at a visceral level was in construction. I'd start at the beginning of the summer on an empty field and leave behind in the fall a finished structure; I still find excuses to drive by the high school I had a hand in building. (And my right shoulder still bears a four-inch scar where a sheet of aluminum siding said "hi.")

Like most of you, my occupation now is much more ethereal. I don't "make," in the good, ancient, Teutonic sense of that term, much of anything. I make things in a purely metaphorical sense—the sentences and paragraphs that, I hope, create a difference in how other people think about the world and hence have an impact in their own ways.

Many managers have as their primary occupation to make something else: numbers. To make the right numbers—that is, turning in a specified financial performance over a specified period of time—they give directions to hire and fire people, expand or contract capacity, raise or lower prices.

At one level, the desire to make the numbers is entirely rational. Most companies of any complexity periodically measure their financial performance. How certain people deem your company, or your slice of it, to have done is very often the primary determinant of how well you have done, which in turn determines how much money you get. And although most of us would say money isn't everything, we all have lots of interesting things to do with it, and can generally find good uses for more.

If we look deeper, however, it might not make much sense at all. Measuring corporate financial performance necessarily demands that we measure performance over time. The default period is one year, but that is for reasons having more to do with the accidents of celestial geometry than any underlying economic reality. Unless you're harvesting crops, the periodicity of the Earth's orbit has only a coincidental relationship with economic cycles.

But if our annual totting up of the scores is the basis of parceling out the spoils, we shouldn't be surprised at the hilarity that often ensues when largely rational actors collide with largely irrational economic incentives. Beyond the stereotypical slashing of the R&D budget, we see travel that would under normal circumstances be deemed essential suddenly become superfluous, mandatory training mysteriously transformed into an extravagance, and painstakingly developed customer relationships become crassly transactional in the pursuit of whatever revenue will hit within the next ninety days. It is a fascinating reversal of the alchemist's project, with gold bars turned into lead shot.

The self-defeating tendency to eat the seed corn—or, worse still, strip-mine the cornfield—is, like the weather, something many people complain about but few seem able to address effectively. We all "know" that short-term optimization is a bad idea; yet, like so much in life, present temptations often drive out our best intentions for the future.

If behavioral economics has taught us anything, it's that simply resolving to do the right thing is essentially futile: We are mammals first and rational decision-makers second. We instinctively lunge for what looks like the key to short-term survival no matter the putative long-term cost because if we don't survive today, what does the future matter? And make no mistake: In the face of an existential crisis, no one argues against doing what it takes to survive.

Modern organizational life, however, is rarely so black-and-white. Instead, our primal instincts end up distorting our interpretation of the facts, and we too often perceive short-term cost-cutting in the service of this year's profits as a relatively sure thing and investments in the future as too uncertain to bank on.

The facts suggest otherwise. There's ever more and strong evidence that it doesn't take much patience at all to realize the benefits of investing in differentiation and growth. Unfortunately, facts rarely carry the day when

arguing with the human psyche. We need structural "nudges" to trick ourselves into doing the right thing.

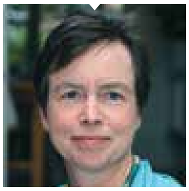
How about this: Most annual budgets consist of far more than a single number specifying desired end-of-period profits. We typically include details on how we expect to create those results, including forecasts for sales, expenses, investments, profit-margin percentages, and so on. Not infrequently, these plans commit to value-creating initiatives, including growth, increased efficiency, innovation, etc. In contrast, rare indeed is the plan committing an organization to lay off competent managers, terminate promising product-development efforts, and forgo early advantages in new markets.

So, should we find ourselves contemplating these sorts of measures in the service of achieving purely financial targets—that is, in order to make the numbers—let's keep in mind that for anything worthwhile, how we get it is often more important than the getting itself. In other words, how we make the numbers matters as much as whether or not we make the numbers. The numbers should be only one of the things we hope to make; the plan must count, too, and sacrificing the plan to the numbers is, if anything, a far greater failure than the other way around.

With that as our bias, when it begins to look as though we are going to miss our profit (or growth or share-price) targets, perhaps the initial recourse should be to ask whether we have first made all the other elements of the plan. If so, perhaps it was a flawed plan, and maybe those who drew up the plan should bear the brunt of the pain implied by any remedial measures.

On the other hand, if the financial results you committed to aren't materializing because you didn't make those other elements of the plan, perhaps the causes of your impending distress lie farther upstream. Not making the numbers because revenue is down? Maybe you need to spend more on separating yourself from your competitors to command a price premium or win greater market share. That might mean something as relatively quick as increasing marketing spending. It could imply medium-term investments, such as broadening your distribution channels. Or it could demand actions that call upon that rarest of traits, patience, as you invest in something like innovation.

What is almost certain is that cutting costs in ways that increase your profits in this quarter to make your targets for the year is highly unlikely to raise revenue. In a modern-day twist on the tortoise and the hare, it really is "slow and steady that wins the race." But unlike the hare's approach, it is not complacency born of hubris that results in this unexpected outcome. Rather, companies committed to hitting near-term targets seem systematically to leave themselves too exhausted to run the next leg of the race . . . which begins the day after the current fiscal year closes! The key, then, is perhaps to focus not on making the numbers but on making the plan. ■



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"SHE'S A GIRL, BUT SHE HAS BRAINS."

Diversity is only as effective as the way we talk about it.

IF THIS IS THE ASIAN CENTURY, THEN THERE'S HOPE THAT IT WILL ALSO BE THE CENTURY FOR FEMALE PARITY IN BUSINESS LEADERSHIP. Women's representation in top jobs in some Asian countries is already much higher than in other parts of the world. In Chinese business, to paraphrase the Mao Zedong quote, women really do hold up half the sky. They occupy 51 percent of senior-management positions, compared with a global average of 24 percent, according to the Grant Thornton International Business Report 2013. The study points out that countries with the fewest women in executive management, which include the United States and United Kingdom, are also experiencing low levels of growth.

For more mature economies to compete harder, they're going to have to examine the role of women in business. One way is to review the language we use.

This was brought home during a panel discussion called "Make your mark in the Asian Century!" at a recent conference I attended in Sydney organized by Women on Boards. Gary Bird, a fellow conference speaker and former Asia-Pacific marketing director at Johnson & Johnson, has worked extensively in Asia and pointed out the disparity in the terms used to describe women in the workforce: "We talk about 'working mums' in Australia like an underprivileged group that we have to address, whereas in Asia they are just 'workers.'"

He has a point. We do not generally talk about "working dads." Jingmin Qian, a Chinese businesswoman and expert on Australia-China investment, described other differences in attitudes toward women at work. In Australia, she had heard the comment, "She's a girl, but she has brains." A male boss had described an all-female meeting as a "mothers' meeting." In China, she had never heard such remarks.

Like old suitcases stuck on an endlessly rotating baggage carousel, the language we use can reflect long-held and often unconscious assumptions that are taking us nowhere. Unless we dust it off, examine it thoroughly, and give it a makeover, this language will continue to hold up progress toward vital business goals that involve reaping the benefits of broader experience and innovative views in decision-making.

This is not about being PC and taking excessive care with language to avoid any possible perception of bias, regardless of one's true feelings. It is about stretching business horizons by focusing on the opportunities of diversity, rather than dwelling on the barriers.

One business leader who has successfully challenged the language is Bob Elton, former CEO of Canadian energy company BC Hydro. In a traditionally male-dominated sector, he raised the representation of female top leaders in the company from 10 to 42 percent and achieved a 50-50 executive team within six years. The words he used—and those he did not use—were significant in shifting culture and attitudes.

Elton knew that female customers were making a high proportion of energy-related decisions in homes around British Columbia. But he did not talk about gender balance or equality. He spoke about leadership with stronger values. He made "emotional maturity" the top criterion for recruiting and promoting leaders, and he told his team to hire the best people and make sure they developed talent that might have been overlooked.

His strong emphasis on emotionally mature leaders is different from the norm. Typically, leaders are chosen based on criteria such as "self-confidence," which might sound innocuous but is a phrase that carries a lot of baggage.

In an interesting blog post about succession planning, diversity consultant Rebekah Steele describes challenging and reshaping the perceptions of an all-white, all-male, all-North American team of executives about how different people express self-confidence. At first, team members insisted that they knew what self-confidence looked like. So

LIKE OLD SUITCASES STUCK ON AN ENDLESSLY ROTATING BAGGAGE CAROUSEL, THE LANGUAGE WE USE CAN REFLECT LONG-HELD AND OFTEN UNCONSCIOUS ASSUMPTIONS THAT ARE TAKING US NOWHERE.

Steele asked: Might self-confidence look different between men and women?

As they thought about it, the executives realized that men are generally more comfortable than women in promoting themselves and are more likely to display body language and power poses associated in Western societies with self-confidence. Responses also indicated that men tend to oversell themselves, while women often focus on other people's accomplishments.

This tendency toward relative self-effacement by women feeds into their greater general dislike of terms like "office politics" and their preference for recognition and promotion based on performance. I recall a U.K. bank struggling to persuade women to take part in a training program about organizational politics. When the company eventually realized the problem was the course title, it changed it to "Raising Your Profile." Women flocked to it.

As Steele points out, self-confidence is expressed differently not just between genders but also between cultures and age groups. Rather like the subtle distinctions in men and women, the norm in Chinese culture, for example, is a more humble, indirect approach than the masculine American manner and highlights team, rather than individual, achievements. Appreciating these differences, and adapting to them, opens the door to hiring and keeping a broader cross-cultural talent pool.

In our efforts to change the language, we don't always get it right the first time. Take the trend inside big companies in recent years to talk about male "champions" or "supporters" of diversity. Fantastic to be a champion, but that's not enough to change how *you* go about your day job. It suggests, as other diversity initiatives have over the years, that the problem lies with the target group—women, gays, the disabled, etc.—whereas, in fact, progress won't happen until the dominant group starts to adapt and change. It's far better to talk about men "leading" change rather than merely "championing" it.

There's also a challenge when it comes to addressing the aging workforce. What language should we use here? Should we really lump together everyone who is 50-plus into one group when it actually includes multiple generations of workers? And what do we call them? "Mature" is certainly better than "older," but doesn't it suggest a ripe, wrinkly plum, rather than an experienced person who may be as energetic as a college graduate, if not more? Does it also carry the unintentional implication that anyone younger than 50 is "immature"? It's tricky.

There's often talk of the benefits of "gray hair" in senior roles, denoting experience and wisdom. But as business psychologist and author Binna Kandola has entertainingly pointed out, gray hair is actually a very male attribute. Societies exhort women to spend time and money avoiding gray hair, so to use the term as synonymous with gravitas has the unconscious effect of encouraging bias against women in top jobs.

These challenges are particularly acute in rapidly aging societies such as Australia's. Deloitte estimates that by 2030, there will be more than five million Australians aged 55 to 70, of whom only a third will still be in the workforce. Faced with serious skills shortages, companies urgently need to find ways to get more of these workers to stay on.

National Australia Bank has an award-winning initiative called MyFuture to help employees think about extending their career, often with a change of pace, rather than just retiring. "MyFuture avoided any age annotation such as 'gray' or 'mature,'" explains Alison Monroe, managing director of Sageco, the consultancy that helped develop and implement the program. "We like to talk about 'late career' rather than 'retirement' transition."

With more and more people having second, third, or even fourth careers, the language around age and retirement also needs to adapt. Talking to managers and employees about career "stage," rather than focusing on age, is a good place to start. ■

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IS YOUR HR LEADER A GLORIFIED ADMINISTRATIVE ASSISTANT?

Of course not. There's nothing glorified about the role.

LINKEDIN RECENTLY CHANGED ITS PRIVACY POLICY AND USER AGREEMENT. The fastest-growing social-networking site now explicitly bans prostitutes and escorts—even if prostitution is legal where they live.

What do ladies of the night have to do with ladies who work in HR? Nothing. I bring up LinkedIn's new guideline only to point out that the company's decision feels like a metaphor for human resources: Just when things start to get interesting, some super nanny comes along and saps the fun out of work.

This is why everyone hates HR—which is why I wonder why anyone would want to work in HR. When given an opportunity to apply a hard-earned education to something important and disruptive, would graduates from the most prestigious universities choose a Wall Street firm that recognizes and rewards performance, or a middle-class job with a corporate HR team that deals with compliance issues related to payroll, résumés, OSHA, ERISA, and ADA?

That's not a false choice. While there are scholars and consultants who praise the emerging field of human-capital management as both exciting and innovative, there is another school of thought that reflects something closer to reality: HR is a compliance-driven function that attracts candidates who are too qualified to work as administrative assistants but not qualified enough to go to law school.

Does that seem harsh? Marc Effron, president of The Talent Strategy Group and author of several leading HR books, believes that HR does not have a properly aligned talent pipeline to succeed. In a recently published survey on talent management, Effron notes that 77 percent of HR professionals want to help people learn and grow as a primary function of their job. As a secondary function, 50 percent want to represent the needs of their employees in the organization.

So people are excited about their jobs. Too bad they're excited about the wrong damn things. HR's main focus should be maximizing the company's profitability, but only 58 percent of talent managers cite that as their primary purpose for working in the field.

Still, let's pretend you find a talented candidate with a decent pedigree who is passionate about building a better workforce and growing profits. Let's speculate that this person aligns herself with the evolving needs of your diverse and complex business units. It is excruciatingly difficult to sell to this individual the notion of a dynamic and exciting job—and proselytize about a compelling future of human-capital management—when almost every major survey since 1997 indicates that your entire HR function likely lacks credibility, competitive compensation, and executive support.

Mark Stelzner, founder of Inflexion Advisors, believes that HR has the power to change organizations and change lives. As companies try to move from hiring a VP of HR who is a "people person" to a highly skilled functional expert from a non-HR background, Stelzner suggests that such HR executives will have an apologetic and embarrassed tone when answering the basic question, "And what do you do for a living?"

And what is it that HR people do for a living? As a former practitioner who now consults with some of America's most dynamic companies, I see HR leaders who operate as executive coaches and advisers, help managers comply with the annual review process, and coach employees on how to have crucial conversations with their smelly co-workers. There is little time left for anything beyond the operational aspects of HR, from scheduling an exit interview with a cranky, soon-to-be-ex-employee to reviewing updates to the healthcare and benefits policies in an Obamacare world.

Employee operations? Personnel? This sounds like a fabulous job to *no one in the world* except my good friend, Don MacPherson, who is the co-founder and president of the consultancy Modern Survey. He explains, "Apathy and disengagement are present in a third

of employees across the country and another third are under-engaged. HR professionals have the best opportunity to change this by guiding senior leaders to put the right framework in place, educating leaders throughout the organization about what engagement is and how to elevate it, and requiring that employees choose to bring their best to work."

I trust MacPherson's perspective as an entrepreneur himself, but I believe that the best way HR can help an organization is to get small, get fast, and get automated. When expertise is needed, just purchase it. Sometimes that means investing in new technologies, such as cloud-based social networks, big data, and a plethora of tools that can help you manage everything from compensation to diversity and inclusion to performance issues to holding potlucks. Other times, it means hiring coaches, consultants and advisers, who have the best opportunity to educate leaders. (OK, I get it—what else would you expect a consultant like me to say? But there's a reason, after all, that I went from working in companies to working with them.)

Sue Meisinger, former CEO of the Society for Human Resource Management, points out something else: "Technology advances will mean fewer HR professionals are required, so those who are hired will have deeper business expertise."

When I asked Meisinger about striking the right balance between being pro-employee and a cold-hearted robot like myself committed to corporate profitability, Meisinger had great advice. "Of course HR professionals need business acumen," she explains. "But just as importantly, HR needs to have enough emotional intelligence to understand why people take what you do so personally—because it is personal to them. Everything HR does matters to the people working there: how much they make, what benefits they receive, their training, their development, their career path, and how they're treated. It's all HR. You have to be comfortable with a certain, constant level of criticism about all you do."

True enough, but whenever someone tells me that HR professionals need to have a strong EQ to thrive and survive, I wonder why we don't say the same for the overwhelmingly large number of male CEOs in America. And if the unique value proposition for a job in HR is that you make a difference in the lives of people and feel their pain—but by all accounts your executive team doesn't want you to talk publicly about the emotional quality of working in HR because you'll look weak and feminine—the profession is doomed to continue hiring amateur therapists, social workers, and babysitters.

HR IS A COMPLIANCE-DRIVEN FUNCTION THAT ATTRACTS CANDIDATES WHO ARE TOO QUALIFIED TO WORK AS ADMINISTRATIVE ASSISTANTS BUT NOT QUALIFIED ENOUGH TO GO TO LAW SCHOOL.

I asked Matthew Stollak, associate professor of business administration at St. Norbert College, about the current crop of undergraduate students who are studying human-capital management. Are they talented? Are they passionate? Do they understand the challenges facing the twenty-first-century HR department? Or are they emotionally rooting for underdog employees in today's workforce?

(Before I even talked to Stollak, I had to choke down my bile while contemplating the price of an undergraduate degree in HR today. Given how many companies compensate their HR staff, financing an HR education can easily require a combination of a Capital One credit card and prostitution—even if you can't advertise your services on a certain career website.)

Stollak tells his students that, at its best, HR has the opportunity to positively influence the entire organization, from dramatically improving talent through proper recruiting and selection procedures to designing incentive programs that motivate even the most difficult employee. He adds, "HR provides one with the opportunity to make employees flourish and perform at their finest."

Stollak also harkens back to his Gen-X roots, pointing out, "Much like Hawkeye Pierce in *M*A*S*H*, who repaired injured soldiers only to send them out to the battlefield yet again, HR professionals often want to appear to be advocates of the employees while protecting the interests of the organization. Unfortunately, much of the time, you are going to be unpopular rather than popular." In other words, if being a future HR leader means walking a tightrope between the emotional aspects of the employee experience and ongoing business needs, then the job sounds as thankless as being a corporate version of Alan Alda. ■

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THINKING ABOUT FEELINGS

The illogic of focusing on logic when managing a crisis.

THE CHRONICLE OF COMPANIES BEHAVING BADLY SEEMS TO EXPAND WITH EVERY NEWS CYCLE. Some entries reflect corrosive greed; many, simple stupidity. What they all have in common are legions of PR types swooping in like Mighty Mouse—hands on hips, feet spread apart, cape billowing—to save the day and douse the fires of opprobrium. Or at least lessen the CEO's heartburn.

Sadly, the weapons these PR heroes pack are strictly Mickey Mouse. They'll shoot off a volley of talking points and news releases, stage a distracting stunt or two, and generally try to change the subject. In all this, they're likely to repeat the same mistake companies have been making since the first reporter crossed the River Styx to flack for better pay: thinking they can argue their way out of an argument.

Can't be done. Corporate scandals have less to do with the stuff of logical argument than with the mysteries of intuition and emotion. Most institutional scandals amount to public betrayal. And, for the most part, when people have been betrayed, their opinions are a tissue of rationalization for the way they feel. The more significant the institution, the more deeply they feel it. (Ask the Roman Catholic Church.)

Psychologist Daniel Kahneman, who has studied the nature of decision-making for decades, calls this process "fast thinking." It's a form of cognition, but it happens in the most primitive part of our brain, the seat of intuition, emotions, and memories. It operates by association and rules of thumb, not by reasoning, so it spits out answers twice as fast as the higher mental faculties that developed later. It helped our prehistoric ancestors survive in the jungle, but it's still in full operation and it's surprisingly stubborn. Objective facts can't shake it.

For example, when John Roberts was nominated to the Supreme Court in 2005, half of registered Democrats opposed his appointment. Not surprisingly, when a pro-choice group ran a TV commercial accusing Roberts of dismissing a case against an accused abortion-clinic bomber, opposition increased to more than eight out of ten Democrats. When the activist group publicly withdrew the commercial, admitting it misrepresented Roberts' decision, the percentage of Democrats opposed declined but, interestingly, remained 29 percent higher than before the ad ran. The commercial's emotional impact outlasted its factual content. That helps explain why two-thirds of Republicans still believe President Obama is hiding something about his early life, including his place of birth. Or why more than a third of Democrats believe President George W. Bush had advance knowledge of the 9/11 attacks.

What fuels these attitudes is non-quantitative, though it can be measured. It's irrational, though it has its own logic and carries more weight than anything on a balance sheet. What drives consumers is emotion. It moves them long after they've forgotten why they first felt it. It can be provoked by stimuli far removed from the ideas that aroused it in the first place. And it literally becomes the filter through which they experience reality.

When an institution or its leaders are in trouble, people's negative attitudes reflect their thinking less than their feelings do. Once rooted, no rational argument can dislodge them. Bob Allen, once the CEO of AT&T and one of the most decent men I know, became a symbol of corporate greed back in the 1990s because he eliminated forty thousand jobs at the company while it was making record profits and he was drawing a multimillion-dollar salary. It made absolutely no difference that the downsizing was due to a corporate restructuring almost everyone agreed was necessary, that most employees affected would continue to be employed at divisions being sold, or that the company had among the industry's most generous termination plans. The downsizing began a series of interconnected crises that ultimately resulted in Allen's replacement.

When the guy who replaced him, Mike Armstrong, announced even more downsizing just ninety days into the job, he combined it with freezing executives' salaries and eliminating their chauffeur-driven commuting service. It was a popular move with rank-and-file

employees and made the business pages as a sign of how serious he was about cutting costs and changing the culture. In fact, exactly one executive commuted to work by company car at the time. Already slated to retire, she was driven to and from the office until her last day. And annual salary increases were a minuscule element of executive compensation. Bonuses and stock grants, which continued, and even grew under the new CEO, were what really mattered.

Armstrong was a master of the symbolic gesture, understanding that anything that speaks to people's hearts travels faster, and resonates more loudly, than anything addressed to their prefrontal cortex. By suggesting shared sacrifice, Armstrong spoke to people's sense of fairness. But there's a caveat: Actions still have to be credible. Once people discovered how hollow Armstrong's symbolic actions were, they turned on him and the company.

You also can't assume credibility. Jack Welch had plenty of credibility in some areas, but he spent the last decade of his tenure at General Electric fighting efforts to make the company clean the Hudson River of toxic chemicals dumped there before anyone knew their danger and they were banned. GE fielded study after study, justifying its minimalist approach. Still, no one bought the notion the company was interested in anything but protecting its treasury. So when Welch's successor concluded that the company's future lay not in TV programming and financial services but in environmentally friendly industrial products, he knew he would be scaling the mountain of cognitive dissonance.

As a result, GE spent three years preparing to launch its "ecomagination" program. First, it reached an agreement with the Environmental Protection Agency to clean up the Hudson River. But then it had to convince its own employees that the company was serious about producing more environmentally efficient industrial products, explaining that rising fuel costs, tighter environmental regulations, and growing consumer expectations would translate into demand for cleaner technologies across all of the company's infrastructure businesses. Simultaneously, it began a dialogue with its major customers to ensure that they too saw the inevitability, and even advisability, of tougher environmental regulations. And in the process, it set concrete investment and sales objectives for its major product lines.

But even in launching the program in 2005, CEO Jeff Immelt was candid about his motivation. "Green is green," he said. Ecomagination was not being adopted because it was trendy, or even the moral thing to do. It was about making money by giving customers what they need. A few cynics cried "greenwash," but the larger environmental community took a wait-and-see attitude. They quickly saw it was more than a PR program. Within two years, GE increased its portfolio of clean-energy products to sixty from just seventeen. *BusinessWeek* credited the program with increasing the company's brand value by $6 billion—at a time when the company's stock price was at best flat. In just eight years, ecomagination revenue topped $100 billion.

Could the average consumer spell out just what products GE was selling? Beyond light bulbs and appliances, probably not. Ninety percent of GE products churn away deep within the bowels of large industrial companies, out of the average consumer's view. But they knew—they *felt*—that the company was committed to something they cared about, something important.

That doesn't mean CEOs need to get all touchy-feely. Good public relations is more than playing to people's emotions. But connecting emotionally is the surest path to people's rational faculties and the only way to ensure the information they need to make an intelligent decision actually reaches them. Particularly if they can see you only as the stereotype of a company behaving badly. ■

SIGHTINGS

TURNING AN OLD LEAF

THE WAR ON DRUGS IS GOING UP IN SMOKE. Each year, the Mexican government burns tons of seized marijuana, sometimes creating public ceremonies around bonfires to reassure the public that authorities are making progress to fight the nation's rampant illegal-drug trade. Of course, weary Mexicans know that where there's smoke, there are mirrors. No amount of torched cannabis—including the forty-six tons, shown above, recently incinerated at a Tijuana military base—will convince the country's citizens, or anyone else, that the government is winning a losing battle. Increasingly, Mexican officials are conceding that it's time to clear the air. Literally.

Soon enough, there won't be any pot to set aflame—that is, if current efforts to decriminalize marijuana become law. What was once a fringe movement in Mexico just recently got the backing of former Mexican leader Vicente Fox, whose presidency was partially defined by fighting drug-related crime. Today, Fox publicly supports legalization of pot, recently stating that "Mexico should become an authorized producer, and export marijuana to places where it is already legal."

He's not alone. Throughout Latin America, leaders are rejecting decades' worth of tactics to stamp out illegal drugs, favoring varying degrees of decriminalization instead. In Uruguay, despite polls showing that most citizens oppose legalizing pot, President José "Pepe" Mujica continues to push for new laws, stating that the population "must be educated" on the benefits of legalization. Meanwhile, Guatemalan President Otto Perez Molina continues to argue against prohibition of not just marijuana but even narcotics like cocaine.

Most critics agree, however, that until the United States—which has one of the world's highest rates of marijuana use (Mexico, incidentally, has one of the lowest)—makes greater strides to legalize the plant, the struggle against drug cartels will persist. Even if certain Latin American countries were to legalize pot, doing so would only transfer violence to other areas. In other words, reducing crime demands—get ready for the pun—a joint effort. —VADIM LIBERMAN