THE CONFERENCE BOARD REVIEW

IDEAS AND OPINIONS FOR THE WORLD'S BUSINESS LEADERS

A Closer Look

REASSESSING EXECUTIVES' VALUE IN A CHANGING ECONOMY

WHY YOUR PEOPLE HATE THEIR MANAGERS

"MY DEPARTMENT" VS. "OUR COMPANY"

YOUR BEST CANDIDATE MAY NOT LOOK LIKE A CEO

THE CONFERENCE BOARD

Fall 2011
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OPENERS

AS THE WESTERN FINANCIAL CRISIS MORPHED INTO AN ECONOMIC CRISIS and, at least in the United States, a political crisis, almost inevitably, voices began calling for more input from business. *Why aren't corporate leaders getting involved? Why is business on the sidelines?*

This isn't about money. No one—well, hardly anyone—is arguing in favor of more corporate money in the political process; there's a reason why Howard Schultz's recent public "pledge to withhold any further campaign contributions" resonated far and wide. Rather, it's about leadership.

Part of the yearning, from both the punditry and the public, is for a time when CEOs were simply prominent, respected, engaged members of society distinguished by their solidity and competence. Politicians might have raged against plutocratic monopolists, but most executives were just professional managers who could afford to live in slightly bigger houses. Like high-ranking military officers, they were the kind of people everyone wanted in public office.

Today, of course, CEOs are seen as a different breed, in charge of vast organizations with salaries to match, and people—feeling unmoored and helpless as jobs disappear and the holes in society's safety net widen—are looking to them for a more visceral reason. What many hunger for is a strongman, someone to firmly grasp all today's problems and just *deal* with them, wielding ironclad principles and an iron fist. And no one sounds more definitive than a political candidate trumpeting corporate managerial experience. After decades of egged-on hostility toward government, *private sector* automatically trumps *public service*—even as we flounder in the wake of a global meltdown caused by corporate shortsightedness and misbehavior.

The result: More than ever, candidates tout corporate and entrepreneurial backgrounds as prima facie evidence of their ability to conjure jobs. We hear it even from candidates cast out of the corporate world after notorious failure; we hear it even from candidates whose wealth and business credibility are premised on *eliminating* jobs.

Which raises the point that successful executives know far less about creating work for more people than they do about getting more work out of fewer people. That's why Western economic productivity has continued to climb over the last quarter century even as wages have stagnated. And however much attention CEOs pay—genuine or feigned—to work/life issues and sustainability, their focus is and must be the company's financial survival rather than the happiness of the stakeholder universe.

This is not to say that we couldn't use more executives in public service—people who have borne real responsibility, who have had to balance loyalties and be accountable to multiple constituencies, whose decisions have tangibly impacted the lives of hundreds or thousands of others. But there's nothing magical about *businessman* or CEO—a fact that anyone who actually manages people today would readily acknowledge. No top executive would honestly claim to have all the answers . . . which is, unfortunately, precisely what Western electorates demand from their presidential and prime ministerial candidates. However omnipotent a newly appointed *CEO* feels, he or she understands that the feeling is temporary. It's not the same as being king.

MATTHEW BUDMAN
Editor-in-Chief

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Close the Door

BY KEVIN EIKENBERRY

THINK OF EVERY NEW LEADER SPEECH you have ever heard. They all include, "I have an open-door policy." Does every leader truly practice that policy?

If you made a list of leadership clichés, the open-door policy would likely make the top ten. Clichés exist because truth exists within them, and clichés often beg further examination beyond the nugget of truth. Such is the case with the open-door policy.

The intention, of course, is about availability, access, and openness. When someone says her door is always open, she is implying that when you need help, advice or information, she will be available. The problem here is twofold:

This is a hard policy to live up to. Even if the door is open, it doesn't mean the leader is available—look at your calendar, after all. So stating this universal policy often sets expectations you can't live up to.

When the leader is available, she likely has work do to, and the interruptions of the open door can be detrimental to productivity. Leaders are there to serve their teams, and they have responsibilities and work output of their own.

That is the backdrop for my assertion that leaders need a *closed*-door policy. This doesn't mean that access, availability, and openness don't matter—far to the contrary. Rather, a closed-door policy, as I will describe it, actually allows for these things to exist realistically, and perhaps paradoxically, allows productivity to rise for everyone. Let me describe what I mean:

Should you make yourself accessible and available to your team? Yes, of course, just not at their whim and leisure! Think about it: When was the last time someone popped their head in →

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> Closing the door and creating an expectation of trust helps people grow. You will allow space for important, not just urgent, work. As leaders, we must do work that is beyond the urgent. We must have time to think, plan, check our vision, and more.

the door with a question, interrupting your thinking and flow of work, with a question that was truly an emergency? How many of those questions could have waited fifteen minutes, two hours, or until tomorrow?

The closed-door policy is more like the office hours of a college professor. You knew when he was available, and so you planned to meet with him, ask your questions, and get your coaching during those times. This approach certainly made the professor more productive—and you too.

The closed-door policy is about putting some discipline and intentionality into your workday for the purpose of creating better control of your time and skyrocketing your productivity. Whether you use office hours, a planned time to meet with team members, or devise some other approach, the goal of the closed-door policy is to create space for everyone to have greater productivity because there are fewer avoidable interruptions.

Here are five specific benefits you will gain from creating your version of a closed-door policy:

You will create clearer, more accurate expectations. Since your door can't be open all the time, or you sometimes ask people to come back later (or you aren't in your office anyway), why not have an expectation you can deliver on? By telling people when you are available or having some other process that creates a clear and reliable expectation, you set everyone up for success. You also manage people's perception of your honesty and intentions. Far better to be available when you say you will be than to say you are available and not be.

You will manage interruptions. While we all believe we can multitask, that is a misconception. Have you ever been working on an important project, document, or plan and had someone pop in to ask you a question? After they leave, how long does it take you to reconnect with and be productive on the other piece of work again? Interruptions sap our productivity! By managing the chances for interruptions (remember there are few true emergencies and that when they occur people will interrupt anyway), we are improving our productivity vastly.

You will encourage personal and team development. A true open-door policy is one of the fastest ways to hamstring the development of your team. Why? Because when they have a question they can immediately come ask you. Would they ask you that question if you were on a business trip or vacation, or would they figure it out, make a decision without you, or wait until you were available to share their questions? In any of those cases, your availability is keeping them from learning. If you truly want to coach and develop your team, you must be supportive and available, and you must allow them to try new things. Closing the door and creating an expectation of trust helps people grow.

You will allow space for important, not just urgent, work. As leaders, we must do work that is beyond the urgent. We must have time to think, plan, check our vision, and more. It is nearly impossible to do this with a constant focus on the urgent and immediate. A closed-door policy is one step toward giving you the time you need to work on the most important things.

You will improve organizational productivity. When you close your door, explaining to your team why you are instituting this new process, you not only improve your productivity—you improve theirs. Some questions they will answer themselves. Some will go away, and those that they need to ask will be asked in an effective and efficient manner—and they will remain more focused, with fewer of their own interruptions.

Let me be clear: The intention behind an open-door policy—to provide access to information, ideas, wisdom, and help—is fine, admirable, and important. Unfortunately, in practice this isn't what happens. The unintended consequences that surface in a lack of time control and reduced productivity far outweigh the advantages.

Should leaders be accessible, available, and open to conversations? Should they offer feedback and provide coaching? Of course they should—and if they don't, their effectiveness and value as a leader is severely limited. These goals can be reached, and in most cases reached more effectively, with a more realistic, structured, and clear plan and approach—an approach that sometimes includes a closed door.

Just Say No

BY JILL FLYNN, KATHRYN HEATH, AND MARY DAVIS HOLT

Doing "women's work" at the office is bad for your confidence and worse for your career.

Are you the office go-to girl for party planning, philanthropic pursuits, office-beautification efforts, off-site planning, Earth Day projects, company surveys, and after-work self-defense classes? What about at home? Who cooks dinner, sorts the socks, buys the flowers, folds the towels, steams the carpet, plans the sleepover parties, and buys birthday gifts for your mother-in-law?

We've become lightheaded simply compiling this list. How do you feel, routinely taking responsibility for every little thing? These extra, make-the-office-a-nice-place-to-work jobs are what one of your clients calls "women's work" because it's always the women who agree to take them on.

If you agree to do the domestic work for your company, that's what you'll be known for. And it will come back and bite you. You'll have less time to take on the important business that is more likely to lead to career success. Just stop and count the number of men in your office who step up to plan the holiday party. Why so few? They are too busy volunteering for the assignments that will get them promoted.

Even beyond the women's work, it's important to set boundaries. When a colleague asks you to sit in on a meeting or read a report, take a moment to decide if it's work you should do. Without that deliberation, you may find yourself owning work that is someone else's. In some cases, instead of saying no, try to renegotiate the role. In lieu of sitting in on a meeting, should you be presenting at it? Instead of helping a colleague prepare a presentation, suggest someone else who can do it. When all else fails, remember what Nelson Mandela says: "No is a complete sentence."

■ JILL FLYNN, KATHRYN HEATH, and MARY DAVIS HOLT are partners at consultancy Flynn Heath Holt Leadership. From *Break Your Own Rules: How to Change the Patterns of Thinking That Block Women's Paths to Power* (Jossey-Bass). ©2011

No Detail Was Spared

BY RAJEEV PESHAWARIA

I RECEIVED MY FAVORITE ASSIGNMENT A FEW YEARS AGO when a global head of business asked me for help. He was frustrated because despite the best efforts of his leadership team at repeatedly communicating the business plan, people a few levels below were unable to say what the vision and strategy for the business were. I asked what they had done by way of communication, and he pulled out three spiral-bound documents—each at least two inches thick. He proudly went on to tell me that these were the detailed business plans for each of his three divisions, and that his management team had spent weeks of hard work to put them together.

He said, "Our original goal was to make sure everyone fully understands what we are trying to accomplish, and no detail was spared. We have nothing to hide." He then went on to tell me how he and his team had traveled to all locations and conducted town-hall meetings to explain the strategy, and that these documents had been sent to all employees electronically. "How can anyone in this company claim not to understand our vision and strategy?" he asked in total bewilderment. ➔

I think I offended him when I pointed to the three spiral-bound books and said, "That is your problem." He wanted to know how I could make such a sweeping statement without even looking through the documents, but I insisted that I did not need to. I told him I would look through them later, and that I was sure the strategy was a good one. But the problem was not the lack of thoroughness—it was the length of material. "Find a way to say it simply so that people can understand and accept it," I said.

He was not impressed. In fact, he angrily told me that I had no idea how hard he and his team had worked on the strategy decks and the great lengths they had gone to while communicating to the troops. He went on to warn me that if I continued to be so dismissive about clients' work, I would soon be out of business.

When he finally paused for breath, I asked him, "What is more important—the fact that you are right and I am wrong, or the fact that your people still do not understand the strategy?" He paused for a few moments and finally said, "OK, let's get the team together and get to work on simplifying the messages." Over the next few weeks, we worked together to create a one-page picture of the overall strategy, supported by a two-pager on each of the three businesses. We synthesized key messages in such a way that even an outsider like me could understand the power of their mission in fifteen minutes or less.

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Hitler, Stalin, Mao, and . . .

BY JIM STROUP

Have you ever noticed that when people talk about leadership, the unspoken but overpowering assumption is that it is a positive and constructive force? Have you ever questioned that presumed relationship? If you have, what sort of reaction did you get?

The falsity of this putatively inviolable connection is among the most grave of the many very serious problems with the modern leadership movement's (MLM) concept of individual leadership in organizations.

It is most important to see that to the extent that there are naturally magnetic leaders—whether self-developed, identified as latently promising and cultivated, or even somehow just plain taught—there is absolutely no inherent connection between the nature of that leadership in those individuals, and the value placed in your organization's goals by its owners and its customers. Indeed, it might be argued that the very hypnotic power to cause people to rapturously drink the Kool-Aid is itself highly suggestive of leadership of which you ought to be most skeptical. As Peter Drucker once famously said, "Leadership is all hype. We've had three great leaders in this century—Hitler, Stalin, and Mao."

Consider this: When the assorted MLM gurus trot out their exemplars of the various representations they offer of the "essential" leadership characteristics, they tend to use one such ideal for each trait. Ever notice that? The thing is, if you look closer, you will find that many of those celebrated for their expression of one "vital" trait simply don't have many of the others so described—or even, in truth, are infamous for having the opposite

of such another trait.

But Drucker's alarmingly influential trio and countless other such examples throughout political, military, and business history, ancient and modern, tend to be the complete package—virtual poster children for MLM depictions of leadership, from passion to vision to humility to, in their own tortuously distorted ways, integrity and honesty. Certainly even today, it is disturbingly easy to find such individuals who manifestly have it all.

Does anyone in your organization have it all? Are you sure you want them there? How about the "leaders" you believe you are selecting and developing in your training programs? How wise is it to instill in such as them the inevitable sense of entitlement and expectation of followership, and then to release them back into your units? Similarly, how sure are you that those outside candidates you recruit so confidently because they most completely fit the trait templates for leadership are really safe to set loose on your organizations?

Whenever you discuss the notion of individual leadership in organizations—especially in your organizations—be sure to address as well the question of what it is, to challenge the demonstrably untenable assumption that it is somehow an inherently constructive force in your midst. Do not engage in discussion of leadership on its terms. Insist on doing so on the basis of your own carefully determined and delineated requirements. You may be surprised by what you actually begin to see.

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Top Three Myths About Top Executives

BY STEVE TOBAK

THEY MAKE BIG BUCKS. They've got power and perks. They jet halfway around the world for a meeting and are back for dinner the next day. Sounds exciting, doesn't it? Good work if you can get it, right? Well, I'm not going to lie to you—it is all that. But I still gave it up, and for good reason.

The truth is that executive life isn't all it's cracked up to be. Much of the disparity between perception and reality comes from the fact that only a tiny percentage of executives work for big companies, while the vast majority work for much smaller firms. And that makes one helluva difference in lifestyle.

All the compensation surveys you hear about and much of what the media covers is focused on the Fortune or S&P 500. Just to put that in perspective, there are roughly nine thousand publicly traded companies in the United States, and perhaps ten times that number of privately held corporations. That means you're only hearing about less than 1 percent of the total, and if we're talking all senior execs versus CEOs, then it's less than one tenth of that.

Look, I'm not saying you should cry for these people—they're responsible for the choices they make. I'm just trying to get people to look past the media coverage and the soundbites and understand what life is really like for most executives in the real world. It's not a winning lottery ticket. It's hard work, stress, and dedication.

Myth #1: Executive pay is out of control. Sure, reading an annual salary survey of S&P 500 CEOs will either give you a heart attack or make you nauseous. But the truth is that most executives work for small and midsized firms where the compensation is much more reasonable and typically not huge multiples above the next level down.

For example, when I was a senior exec, plenty of employees—managers and individual contributors—made almost as much as I did, even at →

public companies. The big ticket was stock options, but they're worth zero if the company fails to go public or the stock declines in value. I certainly experienced both.

Myth #2: Jetting around the world is a great life. Besides working long hours, many executives are away from home at least 25 percent of the time. And while some do get to go first class, that's the exception, not the rule. Then there's all the time away from the family, jet lag, sleep deprivation, and the added stress of a hectic, complex life.

For example, I traveled about two million air miles over the last ten years of my career and commuted halfway across the country weekly for more than a year. All those red-eye flights nearly killed me. And I know lots of execs who travel way more than I did. My brother-in-law, a VP with Rayovac, splits his time between the United States and China, so he's with his family only half the time. That's a big sacrifice.

Myth #3: They don't really work—they just sit in meetings all day. Sure, top executives spend a great deal of time managing their people and in meetings, but as the chief finance, marketing, sales, technical, whatever officers of the company, they're also individual contributors. That's what accounts for the long hours. I averaged about sixty hours a week, not counting all the travel time away from home. And no, you don't get overtime.

Bottom line: Especially these days, most executives are on call 24-7, sacrifice significant family time, and experience enormous stress. Their dedication is a big part of what's great about America and capitalism. Just wanted to provide a broader perspective.

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I Really Am Smarter Than You

BY THOMAS J. DELONG

When I was at Morgan Stanley, a colleague and I disagreed on whether we should hire another investment banker at a senior level. I was insistent that it wasn't a good idea. My friend thought it was an excellent idea. Eventually the leaders in the investment-banking division decided to go ahead with the hire.

There was much celebration in the division because we had "stolen" a key banker whom we needed in a particular area of the business. I was not thrilled. I had lost the skirmish. I had argued hard in dissent and was outvoted.

What is embarrassing as I look back on the whole incident is that from the day this new star hire joined the organization, I acted distant and aloof from him. I didn't go out of my way to make him feel as if he was now part of the firm. I assumed that those who were so excited to have him would embrace him and socialize him into the firm.

Three months after he was hired, I heard rumblings that this banker hadn't delivered on some clients who were supposed to follow him. I remember attending a partner dinner to which he was invited but didn't show. Six months into this relationship, he went back to the firm where he had been for fifteen years. His sponsors were shocked and I'm sure embarrassed that they had invested so much without reaping any benefits.

The first thought I had immediately after I had heard the news was, "I told you so. I knew this would happen. I told you this would be the outcome before he ever joined." I find myself feeling embarrassed and ashamed as I write this, but it's the truth. I blamed the sponsors that it didn't work out. I blamed the professional himself for not working hard enough to make the situation work. But of course, I didn't blame myself.

Upon reflection, I think I actually sabotaged the lateral hire because it was more important for me to prove myself right—to look smarter than the others. It was more important for me to be seen a seer, as an insightful guru who could read people and the future and know what would play out before it ever did. It was more important for me to be right and prove others wrong and to blame others. I could have chastised myself

“High-need-to-achieve professionals often feel the need to be smarter than others to prove their own worth.

for being too prideful to help socialize this new person into the firm; I could have taken a long, hard look at why I remained distant from him rather than helping him contribute his considerable knowledge and skills to the enterprise. But I did not.

The lesson: When we blame others for being “stupid” about something, we are able to portray ourselves as smarter than they are. High-need-to-achieve professionals often feel the need to be smarter than others to prove their own worth. In fact, they are often only smarter in their own minds; by telling themselves that their colleagues are dense, slow, and unperceptive, they elevate their own business intelligence. They are, of course, fooling no one with this blaming trick except themselves.

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HR: YOU'RE DOING IT WRONG

When Equality Doesn't Abolish Unfairness

BY LAURIE RUETTIMANN

I RECENTLY MET A CEO of a consulting firm in Minnesota who is very proud of the fact that—despite rising medical costs and the inconsistent political, economic, and social landscape in America—his company offers health-insurance benefits to same-sex couples.

“I am doing something the government can't do,” he told me. (Or, rather, won't do.)

About fifty million Americans under 65 are uninsured, while the number of people covered by private health insurance continues to shrink. This gentleman's small business, with fewer than fifty full-time employees, is out on the edge of glory. He is fabulously bucking the corporate trend to reduce coverage, limit exposure, and blame the federal government for tying his hands. →

So when he told me about his company policy, I seriously thought, *Hey buddy, thanks for doing America a favor. What a hero. I am surprised you're not wearing tights and a cape.*

Then I asked him if he extends domestic-partner benefits to heterosexual couples, he said, "No, those people can get married."

Ay. There's the rub. The chief exec's superpowers go only so far.

Health insurance in America is—to use a very clinical term—jacked up. We participate in an employer-based system in which companies contract with private health-insurance organizations to offer coverage to qualified adults and dependent family members. And the definition of who qualifies as a "family member" varies from state to state. Although the federal Defense of Marriage Act supersedes state law, Massachusetts, Connecticut, Iowa, New Hampshire, New York, Vermont, and the District of Columbia now issue marriage licenses to same-sex couples. Meanwhile, civil unions and domestic partnerships in a patchwork of other states and local jurisdictions provide certain rights and benefits to gay couples.

That's great! Marriage equality is progress for everyone in America. But this twenty-first-century civil-rights movement means that lawyers, HR departments, and CFOs must review healthcare options, take into consideration the changing landscape of marriage, and offer total compensation packages that can screw people. Why? Because it is really difficult to properly support and fund inclusive work environments while remaining fiscally responsible and accountable to shareholders and corporate boards.

When health care intersects with marriage and personal relationships, which it does on a daily basis, it's a mess. At one company, same-sex couples are covered regardless of marital status or state laws. At another, the assumption is that everyone—including heterosexual married couples—is out to defraud the system. No one is above suspicion, and a tremendous amount of time and energy is wasted on fraud investigations.

Then you wonder why HR ladies are crabby and frumpy? It's because we are caught up in the chaos of states' rights, changing political hermeneutics, and difficult economic times. Plus you expect us to plan the company picnic, too?

With the rise of marriage equality in America, some HR departments are trying to streamline benefits administration through the simple act of going retro. The thinking is simple: *If we require heterosexual couples to marry in order to receive coverage, shouldn't we place the same burden on newly empowered gay couples in states like New York and Iowa?*

This is not a crazy idea. After all, it's setting the same standard for insurance-participation eligibility for all couples in states where same-sex marriage is legal. Although not ideal, there is no perfect way for your local HR department to balance the mandate of diversity and inclusion with the very serious realization that one major health-insurance claim could bankrupt a self-insured health plan. Why not demand marriage of everyone where possible?

Unfortunately, when a company requires that people marry to qualify for health insurance, there are significant social implications. In a 2008 poll by the *Los Angeles Times* and the Henry J. Kaiser Family Foundation, 7 percent of Americans said they or someone in their household decided to marry in the last year to get healthcare benefits via a spouse. This is called an "insurance-card marriage," and for the quarter of working-age adults who are uninsured, this can often be the only realistic option to obtain medical care.

To make matters worse, there is a growing trend these days called the "non-divorce," where couples separate but retain their married status to continue participating in health-insurance programs. This common practice violates the spirit and intent of most employer-funded insurance programs, but good luck trying to talk people out of it. And good luck kicking them out of your healthcare pool.

The complicated system of healthcare coverage in America is built on a social structure in which very few people win. Instead of having the courage to call for major reform—such as taxing revenue at a greater rate and opening up Medicare for all Americans to participate—most HR departments and CEOs roll over, adopt a partisan tone, and complain about the "Obamacare" compromise.

Where's the corporate leadership?

In the absence of major change, companies should still work to optimize a broken system by offering benefits to partnered couples and dependents regardless of state laws, regardless of gender, and regardless of marriage status. It doesn't fix the system, but the effort is not lost when it improves the lives of many Americans. Meanwhile, any CEO who is proud to offer coverage to same-sex couples as a solution to a faulty healthcare system has his head on backward. He ought to be fighting, tooth and nail, to remove the responsibility of medical coverage from internal and external shareholders and place it solely where it belongs: with the federal government.

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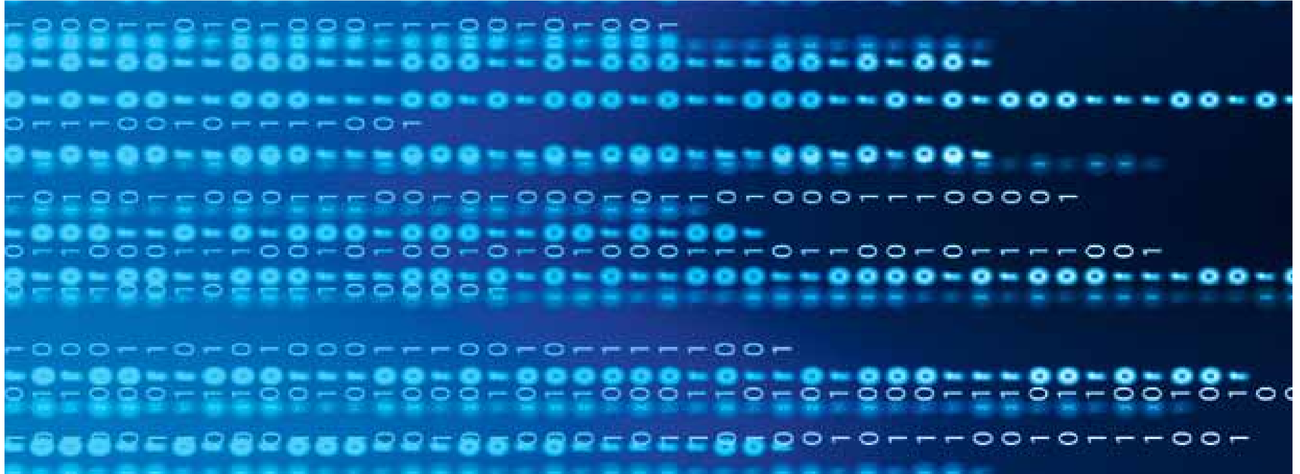


Ignorance Is Bliss

BY SUBROTO BAGCHI

As we advance in our careers, we outgrow many inadequacies of our past. We gain through the experience of the assignments we handle; we acquire fresh knowledge from others that equips us to handle things differently from the past. Yet the self-aware professional is conscious that there is bound to be some gap in his knowledge, knows that he may never bridge this gap, and, most important, feels comfortable with this fact.

A long time ago, I met a customer who, while saying goodbye to me at the end of a long and happy association, told me that I should be comfortable about not being technically qualified, even though I was working in the R&D section of an IT company. During my time there, I used to attend myriad meetings with our customers and engineers and must have shown some fallibility somewhere that did not escape the customer's attention. He was giving me advice on the importance of developing comfort with personal inadequacies.

After that, I have never felt uneasy about being a graduate in political science working in the IT industry. More important, I do not pretend to understand things when I cannot.

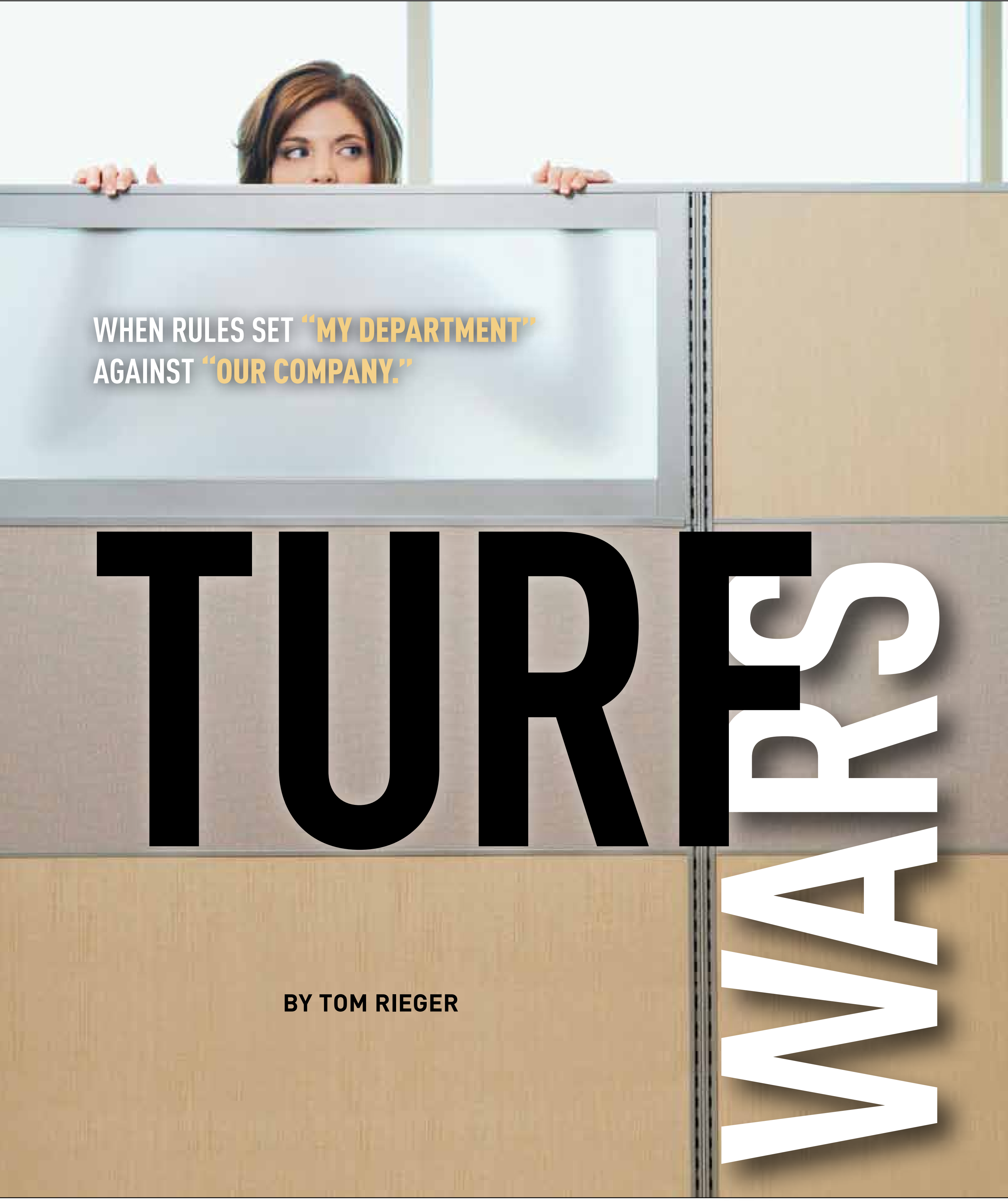
Today, I work for R&D service provider MindTree, where highly competent teams tackle complex technical problems. However capable I might be, I simply cannot fathom the complexity and depth of their work. I may sometimes be capable of deep questioning, I may have the intuitive capacity to cut through issues, I may have the breadth of experience to bring in an external viewpoint which blinkered teams that work at the cutting edge of technology may miss—yet none of that gives me the ability or competence to write a software algorithm or understand the physics of how the alternating character of material helps us store information in bits and bytes.

I may add value in some meetings, and not in others. When technical experts speak, my silence may signal my total lack of understanding. But if I open my mouth, I may disturb the harmony. A professional does not need to hog the limelight or monopolize airtime.

If you cannot add true value, then you must not add to the problem by pretending. The more you pretend, the more naked you become. Ever since I received this piece of momentous advice from a guardian angel, I have attended countless meetings where I began by admitting that I am a complete novice or have sat quietly while others have taken center stage, and I have never felt excluded or reduced in stature because of it.

Sometimes, stating your ignorance can be the simplest solution. Others then take it upon themselves to explain complex technical jargon in easy-to-understand language. Concede the ground and wait, emotionally secure. The team will come back to you when they need you, and then you can truly add value.

■ SUBROTO BAGCHI is vice chairman and co-founder of the global IT company MindTree. From *The Professional: Defining the New Standard of Excellence at Work* (Portfolio/Penguin). ©2011



WHEN RULES SET "MY DEPARTMENT" AGAINST "OUR COMPANY."

TURF WARS

BY TOM RIEGER

TOM RIEGER is a senior practice expert for Gallup Inc. From *Breaking the Fear Barrier: How Fear Destroys Companies From the Inside Out and What to Do About It.* ©2011 Tom Rieger. Reprinted by permission of Gallup Press.

AS BUSINESSES GROW, THEIR OPERATING MODELS BECOME MORE COMPLEX. In a small company, people often share responsibilities or wear multiple hats, but expansion inevitably requires division of responsibilities or a more narrow focus for specific departments. This means specialized job roles.

Organizations need to create a human resources department, maybe along with a separate recruiting and training group.

They might form a legal department to manage the exposure that comes from increasing the complexity of the business or to create contracts they now need with a wider range of suppliers and customers.

They'll divide up functional responsibilities such as sales versus marketing strategies and tactics.

As organizations establish different functions, they have to hire people to lead each one. So managers are put in charge of different areas and given responsibility for their specific area's success. In effect, people are endowed with departments. That's all well and good—and necessary. It would be wasteful for a company to reengineer itself every time a functional area's purview changed or expanded. But when growth is not handled properly, the seeds of bureaucracy are planted. And it all comes back to fear of loss.

The person in charge of a particular function will, of course, be judged primarily on how well that function performs. As business grows, other departments will inevitably have increasing demands for customization, exceptions, and quicker turnarounds on the more specialized groups. At the same time, all of these departments will begin to compete for resources, budget, IT initiatives, and headcount.

So how do the leaders of these functions survive in the face of all of those demands and not lose control? They create rules, standards, and policies to bring order to the growing chaos. Rules are, in a sense, walls that provide boundaries within which people must operate. Sometimes, though, the walls get so high that those behind them lose sight of the world outside.

When they do, they lose sight of the most important thing: the overall mission or strategy. To them, everything revolves around what's important to the *department*—their ability to complete their part of the process and check off that one box, regardless of whether or not it supports the larger strategic goals. The ultimate outcome, customer-related or financial, may start to become more and more disconnected from everyday work and decision-making.

As this phenomenon becomes increasingly severe, those behind the walls will be tempted to view the world not through the eyes of the customer but, rather, strictly through the filter of their part of the process. The focus on process over outcomes becomes the norm. Those within the group start to define success as completing their part of the job, regardless of the impact on others. They start thinking in terms of "my department," not "our company." Their world becomes defined by the piece, rather than the puzzle.

Inevitably, situations will arise for which there's no set policy. What *should* happen is whatever is in the best interest of the company. What often *does* happen is whatever is in the best interest of one particular function. As one employee put it, "We've had a very metrics-driven culture, to the point of dysfunction. We've blurred the lines between means to an end and the end. We have many managers who can't connect the dots, and as a result, the colleagues suffer."

This is especially noticeable in companies that are under pressure.

For example, when the financial-services industry was first hit by the recession, many companies in the industry went to extreme measures to control costs. One company's supply department faced great pressure to stay within its targets. As a result, the department head declared a three-month moratorium on new orders. The employees still needed basic materials—things like pens and printer ink—but they weren't allowed to order more. That left branch managers with two options: If they were short on paper, for example, they could go to an office-supply store and buy some for about $5, but they would not get reimbursed. Or they could make a request from corporate supply and get reprimanded. Neither of these options was very attractive.

A smart branch manager devised a workaround: He would call another manager somewhere else in the country and barter: three reams of paper, say, for a case of paper clips. And for several hundred dollars in shipping between branches, the company saved the $5 that the paper cost at the store. An entire black market over supplies sprang up overnight. Nevertheless, the head of supply was recognized for keeping that department's budget under control.

When this kind of thing happens—functional silos creating protective policies and rules, defining success by focusing on only what happens in their own little world, and losing sight of the ultimate outcome—a company has reached the first level of bureaucracy: parochialism.

WHAT GREATER GOOD?

With parochialism, the world is strictly contained within the walls of a particular function. Maintaining the standards of that function takes precedence over creating engaged customers and business success. Information is evaluated through a narrow filter, and decisions are made for the benefit of the silo. Those decisions may not match the company's needs; those needs may not even be considered. Business success becomes defined as simply completing the process that the function has created. Reality, customers, and the marketplace become peripheral—if those within the parochial function notice them at all.

Sustaining parochialism isn't easy. It takes a lot of effort. So to deal with incessant interruptions, exceptions, and problems, parochial departments (and often whole companies) make new rules to protect themselves: rules that control actions, rules that restrict the flow of information, rules that limit and define how others will deal with that department, rules about the rules for changing the rules—all to serve the parochial needs of a local "ruler."

Of course, not all rules are bad. Every organization needs policies and procedures to protect itself and to define acceptable behavior. A rule evolves into a barrier only when the amount of good it prevents outweighs the amount of bad it protects against. In other words, rules that *protect the organization more than they prevent success* are beneficial. Rules that *prevent success more than they protect the organization* are the building blocks of parochial fear-based barriers.

Rules tend to enforce parochialism when they are absolute. Think of absolute rules as *gospels*. They never go away. They are never questioned, and there are absolutely no exceptions. Not all gospels are bad, though. For instance, airplane passengers must keep

WITH PAROCHIALISM, THE WORLD IS STRICTLY CONTAINED WITHIN THE WALLS OF A PARTICULAR FUNCTION.

their seat belts fastened during takeoff and landing. That rule ensures everyone's safety.

Other gospels are not as wise. General Motors used to have a rule that senior executives had to review presentations three times: They'd read the presentation before the meeting, sit through the presentation, and read the minutes of the presentation afterward. This is part of the reason why GM executives routinely read six to seven hundred pages of documents a day, ranging from divisional performance results to lease agreements, leaving them with little time for selling cars.

Helpful rules promote an organization's ability to serve customers or to achieve a strategic outcome. Parochial rules benefit someone internal, possibly at the expense of the desired outcome. When rules that benefit one parochial group *at the expense of* the success of another group begin to appear, then the rules become a barrier. Unfortunately, violating these parochial rules in the name of doing what's right for customers or the company can end up getting you in very deep and very hot water.

As treacherous as defying the rules can be, it's even more dangerous to try to destroy them. The walls around parochial fortresses are likely to be well-fortified. And attempts at breaching these walls can be akin to political suicide. As Admiral Hyman Rickover said, "If you're going to sin, sin against God, not the bureaucracy. God will forgive you, but the bureaucracy won't."

IF YOUR SELF-INTERESTS ARE IN CONFLICT WITH THOSE OF THE GREATER GOOD, IT IS SIMPLY HUMAN NATURE FOR YOU TO ADJUST YOUR VIEW OF THE GREATER GOOD TO MATCH THE CONTEXT OF WHAT IS BEST FOR YOU.

It's important to remember that these rules aren't created out of avarice. The way people process information is based on the context within which they frame the information. Depending on your frame of reference, you can reach different conclusions from the same set of facts. Different groups may have different reference points regarding the necessary level of performance for a particular outcome. It stands to reason, then, that when people feel great ownership over a particular area, their primary focus will be on how events affect their department—often without too much concern about how events will affect the company as a whole.

None of this is a matter of selfishness or greed. It is simply how people are wired. Fortunately, it's also rather formulaic: If you know how someone views and interprets the world, you will understand how parochialism evolves. And you'll know why the parochial feel so strongly that they're doing the right thing. Managers and leaders who are acting in a parochial manner don't think they're doing anything wrong. Often it is the contrary: They strongly believe that they are taking a courageous stand for what is best. They may have even been rewarded for their actions even though those actions are clearly harming the organization.

Behavioral economist George Loewenstein's study on behavioral decision theory and business ethics helps to explain this phenomenon of doing something that is clearly wrong but thinking it is right. He found that "whenever individuals face tradeoffs between what is best for themselves and what is morally correct, their perceptions of moral correctness are likely to be biased in the direction of what is best for themselves." In other words, if your self-interests are in conflict with those of the greater good, it is simply human nature for you to adjust your view of the greater good to match the context of what is best for you.

For example, a manager may have a goal to hit a certain budget, which she believes she can only meet by following a set process. If a situation comes up that requires altering the process, possibly at the expense of that manager meeting her goal, she will have a natural inclination to fight against what she sees as an incursion on her turf. Her reaction is not entirely her fault.

If organizations do not aggressively work to prevent situations in which one individual or group succeeds at the expense of others, the leaders of those groups may feel compelled to act in a parochial manner. If an organization is holding leaders accountable to hit certain goals, and others appear to be getting in the way, then it is logical for leaders to feel justified putting up walls and barriers to prevent those interruptions or distractions from having any effect—even if doing so ultimately hurts the broader organization. ■

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WHO WANTS TO BE A MANAGER?

WHY WE PROMOTE THE WRONG PEOPLE AND COMPLAIN WHEN THEY FAIL.

BY THOMAS O. DAVENPORT

REMEMBER HOW YOU LOOKED FORWARD TO YOUR FIRST BIG PROMOTION?

You envisioned that you would be leading people who looked up to you and treated you with respect. That's not how the world looks these days to many employees on the verge of promotion into their first leadership position. Increasingly, workers see managerial jobs as endowed with minimal rewards and packed with major headaches. It's no surprise anymore that so many people hide under their desks when the boss comes around to tell them they've been promoted: In a 2009 survey by global temporary-staffing firm Randstad, more than half of the respondents said they'd prefer staying off the management track.

What makes being a first-line manager so unattractive? On one level, the answer is obvious—just look around today's workplace. As downsizing lengthens everyone's to-do list, expanding workloads add new burdens to the manager's job. With many organizations expecting managers to act as player-coaches, both performing and overseeing work, their roles often become complex and unwieldy. Organizational flattening and widening of managers' spans of control stretch their ability to spend time coaching, or even to become acquainted with, any individual employee.

Not that most employees wish for more of their boss's attention: Twenty-first century workers are remarkably confident in their ability to direct their own work. In Towers Watson's 2010 global workforce study, 78 percent of the respondents said they feel comfortable managing their work on their own, with little direct oversight from managers. And they're independent in other ways as well: plugged into information sources and social media, hardened by labor-market ups and downs, and willing to assume responsibility for their own careers.

Modern managers must come to work each day ready to deal with these savvy, connected, sometimes-cynical employees. It's a population that consultant Miki Saxon calls "an enlightened, demanding, and independent workforce that has no problem voting with its feet when unhappy." These workers want supervisors who recognize their abilities, meet their need for information, tell them the truth, respect their freedom, and reward their success. It's a daunting list, one that many overworked managers often find difficult, if not impossible, to deliver.

And these factors don't fully explain why employees and managers alike so often find their relationship frustrating and unfulfilling—why so many supervisors are seen as horrible bosses. To understand the full story, we must look beneath the apparent effects of workday realities. We must go to a deeper stratum of mental and emotional elements that affect how people experience their work and perceive their relationships with peers and managers.

IT'S GOOD TO BE THE KING

How well have managers, as a population, met the requirements posed by the evolving workforce? Not well, according to their direct reports. In Towers Watson's workforce study, manager performance ranges from a depressing 55 percent favorable for providing clear goals (what could be more basic to the job?) to a dismal 39 percent for helping people with career planning, a key demand of employees in almost every company.

Poor manager performance takes a heavy emotional toll; a 2007 study of workplace emotion by a University of Minnesota team of researchers concluded that "employees experience less optimism, happiness, and enthusiasm when they interact with supervisors than when they interact with customers, clients, and coworkers." Little wonder employees find that over-assertiveness and other manager transgressions

reduce the engagement, enthusiasm, and optimism they feel at work. And little surprise that managers, faced with this emotional ambiguity, so often find their jobs stressful and unfulfilling.

Yet no large organization can function without some kind of vertical structure. Even in small, spontaneously formed work groups, someone almost always emerges as the de facto leader—it's an imperative of human nature. Any evolutionary psychologist worthy of his framed Charles Darwin poster can explain why it's good to be the one on top: because being higher on the organizational ladder brings more of the goodies that everyone values. In one laboratory experiment, high-powered individuals more often helped themselves to extra food, chewed with their mouths open, and got crumbs on their faces and on the table. And high-level people feel better too—in surveys, those with greater power more frequently express and experience positive moods and emotional states.

It's easy to see why humans evolved leadership behaviors—they confer obvious advantages in surviving and finding a mate. But we also evolved a facility for evaluating our relative status in a given hierarchy and assessing the costs and benefits of competing for a higher position.

And there are tangible benefits to followership. For one thing, in choosing to step in line behind the leader, we avoid potentially dangerous status battles required of those who aspire to leadership dominance. Those battles range from physical conflicts to political contests to proxy fights.

Nevertheless, in forgoing the battle for status, we inevitably give up something. Hence, the decision to follow rather than lead engenders resentment, leaving followers deeply ambivalent and frustrated by those benefiting from their higher positions in the hierarchy. We have to wonder how much of the resentment about micromanagement has a genuine cause (a controlling supervisor) and how much of it stems from internal conflict that leads us to label almost any manager attention as micromanagerial. Perhaps the fault, dear employees, lies not (entirely) in our managers but (partly) in ourselves.

STRIKING A BALANCE

STRIKING A BALANCE

So even though we're reminded daily that others get to call the shots, many of us prefer being followers. But that doesn't mean that we like being told what to do. We submit to authority reluctantly, and we want those who have it to exercise it judiciously—with a light touch, or no touch at all. As a result, we place a heavy burden on managers to hit a target—a small target—between being too assertive and being too passive. A study conducted by Columbia University researchers concluded that there are two ways to get assertiveness wrong: by falling short when it's time to take charge ("Why won't she deal with the lazy sales reps?") or by acting too aggressively ("Being hard-driving is fine, but this guy just won't listen to anyone else's opinion".)

So even though we're reminded daily that others get to call the shots, many of us prefer being followers. **But that doesn't mean that we like being told what to do.**

The happy medium is happy indeed. The Columbia research showed that managers who manifested moderate levels of assertiveness accomplished just as much as the most assertive, with far lower social costs (in the form of disgruntled employees). This doesn't mean, however, that effective leaders are always moderately assertive. Rather, they display a range of situation-specific behavior. They take firm control of the reins when necessary and let the horses run free when they're headed in the right direction.

The goal, therefore, is to transform managers into catalysts for employee performance, contributors to organizational success, and, in the best case, sources of competitive advantage rather just a hierarchical necessity. In the best

of circumstances, good managers take the lead in creating an environment in which employees can give their best without being burdened, distracted, misguided, and frustrated. Achieving this transformation requires an organization to stop doing some things and start doing others.

THE BIG KAHUNA DELUSION

Many companies compound the frustrations of managers and employees alike by putting new managers into a professional death spiral. The downward descent begins right at the beginning—when companies promote their most skilled performers. In one study, 30 percent of managers in high-tech jobs reported that they advanced because of their specialized production qualifications. Their companies have fallen prey to the Big Kahuna Delusion: the notion that the most skilled expert will prove to be the best leader of other technical performers.

And things only spiral downward from there. Because the new manager is a top producer, her superiors, naturally, want her to spend plenty of time generating output. She finds herself in the role of player-coach, both leading and performing the same tasks done by those she leads. Also, because organizations are flat and getting flatter, the new manager—already expected both to make widgets and to lead widget-makers—often finds herself taking on more and more employees to supervise.

Some organizations, realizing that they have promoted skilled producers with no discernable relational or leadership abilities, will undertake to smooth the behavioral rough spots. But they sometimes go wrong by placing too much faith in training. And this dubious strategy becomes even less effective if budget cuts or shortsighted planning delays training until months into the new manager's tenure—or leaves her with no counsel beyond a copy of *The Complete Idiot's Guide to Managing People*. And there's one final insult to add to all this injury: Some companies have introduced self-service systems that shift a heavy burden of administrative personnel tasks from HR to managers. Performing this administrative work further shrinks whatever time they had to address employee needs.

The result of all this: a manager who has neither the time nor the skill to create the productive workplace that employees demand. Remember, they come to work every day already doubting the competence of their immediate supervisors, in many cases with good reason. The death spiral creates a vortex of frustration that can produce only greater stress and burnout for managers and employees alike.

THE FIRST AND MOST STRAIGHTFORWARD RECOMMENDATION FOR DEALING WITH THE MANAGER DEATH SPIRAL IS, OF COURSE, TO AVOID DROPPING TOP PERFORMERS INTO IT.

The first and most straightforward recommendation for dealing with the manager death spiral is, of course, to avoid dropping top performers into it. But keep in mind that, taken in isolation, each decision can seem sensible. Who's really against having technically expert managers, cost-saving broad spans of control, disciplined oversight of training investments, and efficient manager self-service?

So the key is to change the process at the start of the death spiral—with assessment and promotion. In determining who has the capacity for successful leadership, at the supervisor level and beyond, organizations should of course place value on technical competence. They should put more emphasis, however, on identifying people who:

- Emerge naturally as team leaders, gaining the regard and respect of their peers, not just for their technical knowledge but also for their empathy and judgment;
- Are sought out by their peers for advice on many topics, not just technical ones;

- Evidence an organizational perspective and an understanding of how the company works, how their units contribute to company success, and how their jobs, and those of others around them, fit into the big picture;
- Demonstrate relationship savvy by dealing successfully with a broad range of personalities and perspectives; and
- Aspire to a leadership position, not only because they will make more money but also because they find a realistic profile of the manager job to be appealing.

It's only natural that, when assessing the pool of supervisor candidates, top management would first look to the most technically proficient—the best engineers, computer programmers, sales representatives—and sort for people who show at least a glimmer of potential to lead others. The problem, of course, is that this is where the Peter Principle asserts itself. Technical experts given managerial jobs for which they are unsuited will rise until they reach their ultimate level of leadership incompetence, which in many cases will occur immediately.

The converse—promoting those with demonstrated leadership ability but little expertise—is an equally flawed strategy: These managers can be undone by their lack of credibility or their inability to coach skilled technical workers.

So organizations need to look for candidates with high levels of interpersonal and emotional skills while also insisting on at least moderate levels of technical expertise. The best managers aren't necessarily top producers, but they need to have enough skill and knowledge to act as valuable sources of advice and guidance for their technical subordinates. And having the ability to connect with people and analyze and improve ways of working, they can effectively help workers craft engaging jobs, set and achieve mastery-building goals, become more proficient, and develop the resilience required to weather change. In other words, they can lead (and manage) a unit staffed with people and teams who have confidence in their abilities and want to be left (largely) alone to produce.

HIGH LEVELS OF INTERPERSONAL & EMOTIONAL SKILLS

MODERATE LEVELS OF TECHNICAL EXPERTISE

WATCHING THE CLOCK

Companies must always beware of the player-coach approach to constructing the manager job. The player-coach model and the Big Kahuna Delusion share a common foundation: If it makes sense to promote your most skilled performer, then it also makes sense to require that person to continue spending many hours designing buildings, writing computer code, or selling farm supplies. This approach not only makes for an overburdened and overly complex job—it also hurts the bottom line. Rather than let manager jobs devolve into player-coach structures, organizations should ask themselves what role architecture provides the best financial and competitive outcomes. Supervisors and managers can become centers of insight and influence, endowed with the potential to engage employees and make dramatic contributions to enterprise success. They can fulfill this potential, however, only if their roles are structured for success. Player-coach jobs rarely meet these criteria, in sports or in business.

Consider the fundamental building block of the job—how managers spend their time. Any supervisor, naturally, divides her working hours among a variety of tasks: producing output, overseeing work processes, developing people, maintaining some external contact and, of course, performing administrative tasks. But what way of balancing these elements produces the best economic outcome? Autodesk Inc., a leading producer of 2D and 3D design software for manufacturing, building, construction, engineering, media, and entertainment, set about answering the question.

In 2005, Autodesk aimed to improve the productivity of its sales force. As part of the analysis, the company conducted a survey to determine how high-performing sales

managers spent their time. The analysis team discovered that the best performers differentiated themselves chiefly by spending more time than other managers on coaching sales representatives. For example, in the Europe, Middle East, and Africa sales region, top managers spent about two hours per week more than other managers on coaching activities. Star managers also focused more attention on helping reps with pre-sales planning and deal closure and more time on internal coordination with other functions.

Autodesk took a multipart approach to changing sales managers' time allocation to emphasize coaching. The company first set a goal for managers' coaching time: four hours per sales rep per month, aided by a sales-manager coaching program. The program trains managers to establish a goal for each conversation with a sales rep, assess the current selling situation and pinpoint key challenges, identify alternative actions, and choose a course of action for the rep to resolve the challenge. Sales-manager job descriptions were modified to emphasize the importance of effective coaching.

Some managers were uncomfortable with the increased quality and quantity of coaching expected of them; in response, Autodesk removed some (5 to 10 percent) from supervisory roles. Most, however, achieved the target of four hours of coaching monthly for each rep. And sales reps have noticed the improved focus as well. Survey scores for manager effectiveness in this area are on the rise.

As the Autodesk experience confirms, improving manager performance starts with understanding how managers' time-allocation choices drive their ultimate effectiveness and how redesigning the role can produce significant improvements.

THE COST OF BAD MANAGERS

Many organizations concentrate their time, attention, and training dollars on high performers and people perceived to have high potential. When it comes to supervisors and managers, however, organizations often find that the greatest near-term improvement in employee engagement and enterprise performance comes from taking a different approach. Rather than making already-strong performers better, they deal swiftly with low-performing managers who drain value from the organization.

In one consumer-products company, Towers Watson looked at a series of performance measures across the population of supervisors and managers. The factors touched on how well managers provided feedback, communicated with employees, developed employee skills, encouraged teamwork, and built an environment of mutual respect within the work group. Using employee scores for these elements, we sorted the managers into four performance categories: great, good, fair, and poor. We found that about 20 percent of managers were great, according to these criteria. Another 28 percent fell into the "good" category. A little more than a third were classified as fair, and about 15 percent ended up in the poor category.

The project team then looked at the work experiences of employees with managers in each of the four performance clusters. We analyzed how employees rated their managers for contributing to engagement, helping with competency development and empowering employees to take control of their work. We found that the drop-off in employee attitudes in these areas was greater between fair and poor managers than between any other two groups (great to good or good to fair). There's a clear downward step at each performance level, but the decline accelerates as matters worsen. With empowerment, for example, the difference in perceived performance between great and good managers is noticeable but not dramatic. Fair managers received significantly lower marks, however, and mangers in the poor category showed an even more dramatic drop-off. These are the managers that employees have in mind when they express their frustrations about their work experience.

What should an organization do about its below-par managerial performers? There's no easy answer. Many unsuccessful supervisors would appreciate the chance to improve their performance. But a hard-nosed assessment may conclude that real improvement is unlikely. All the learning and development in the world, for example, probably won't transform a brilliant but introverted and low-empathy technical expert into an insightful, relationship-building leader. Frogs more often become princes.

If an underperforming manager is one of those originally promoted to reward specialized proficiency, the ideal option—one too rarely proposed—is to return the manager to an individual-contributor role. This reverse promotion works, however, only when the ex-manager believes that stepping back into an employee position entails no significant loss of prestige or money. A former manager who knows that his individual contribution will be valued, that he will be paid fairly (though perhaps not at the level of a great leader), and that his performance will be clearly recognized can probably reconcile himself to moving back into a production role. For some struggling managers—particularly those who always had reservations about taking a supervisory position—the move will be a relief. Conversely, if proceeding up the ranks remains the only way to increase compensation or enjoy prestige, then the unqualified and unsuited will still find themselves striving to get onto the managerial track. The organization must ensure that taking on a managerial job isn't the only way to be (and be perceived to be) successful within the company culture.

In any case, any major reconfiguration of the manager job needs to take place one person at a time. It's a change-management challenge that requires delicate, one-on-one handling of individual situations.

The organization must ensure that taking on a managerial job **isn't the only way to be (and be perceived to be) successful within the company culture.**

The goal of executive leaders should be to make their organizations successful by drawing on the combined strengths of the employees who work there. Properly constructed, manager jobs make a powerful contribution by multiplying the effects of those strengths. Think about the advantages to be gained:

Competitive superiority, because your managers keep everyone relentlessly focused on doing work that achieves the organization's vision for success.

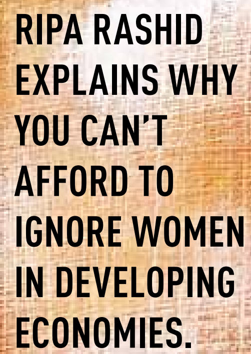
Recruiting superiority, because who wouldn't want to come to your company, given its reputation as the place to work with, and become, a great manager.

Human capital superiority, because better managers can help ensure that your people have greater learning and growth opportunities than your competitors provide.

Workplace superiority, because your managers create environments in which employees are not only more engaged and more capable than your competitors' employees, but also better able to sustain high productivity and respond to change.

Is there such a word as *quadfecta*? If not, there should be, because these four factors make one. What better reasons to recognize and respond to the psychological and organizational obstacles that stand in the way of excellent manager performance? And what better reasons for making your organization the best, and best-known, place to become a high-performing manager? ■

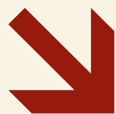
THE OTHER Half



RIPA RASHID EXPLAINS WHY YOU CAN'T AFFORD TO IGNORE WOMEN IN DEVELOPING ECONOMIES.

BY VADIM LIBERMAN

■ VADIM LIBERMAN is senior editor of *TCB Review.*



THEY'RE NOT ALL OPPRESSED, DISENFRANCHISED, OR EXPLOITED VICTIMS. But you wouldn't know that based on the way the media covers women in emerging economies. In fact, many women spend their days not running from abuse or famine but running multimillion-dollar organizations. Unfortunately, says Ripa Rashid, "There's very little attention directed toward this part of the story." It's a story that Rashid, executive vice president at the Center for Work-Life Policy, and her co-author and Center president, Sylvia Ann Hewlett, tell in their new book, *Winning the War for Talent in Emerging Markets: Why Women Are the Solution* (Harvard Business Review Press).

Rashid, 41, has spent more than fifteen years as a management consultant in North America, Europe, Latin America, and Asia; she's seen firsthand the lives of working women abroad. She spoke from her New York office about the unique characteristics of women in developing nations and the challenges they multinationals face.

WHAT'S THE BIGGEST MISCONCEPTION ABOUT WORKING WOMEN IN EMERGING MARKETS?

The first is that these women are somehow behind women in the West. The perception is that the West has feminism, something that seems to have bypassed the rest of the world, so women aren't as ambitious, driven, or educated. But this isn't true. Women are 60 percent of college graduates in Brazil, and the number is close to that in Russia and China. In fact, people in the West find it quite surprising that the percentage of graduates from top MBA schools in China who are female exceeds that in the United States.

Another misconception is that a lot of the issues that women encounter are universal with universal solutions, but that's not the case. Childcare is a universal concern, but women in some emerging markets have more accessibility to it than women in the West because of their existing family structures. So companies shouldn't just put in a daycare center and assume that will be the way to retain women abroad, because many of these women would be more apt to leave kids with family members or have help at home and may not want to bring their kids on their ridiculous work commutes—two hours in some places.

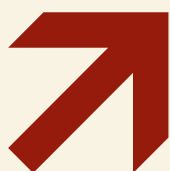
INDEED, YOU POINT OUT THAT IN SOME CULTURES, DAUGHTERLY GUILT IS MORE PREVALENT THAN MATERNAL GUILT.

Yes, in countries like India, China, and the United Arab Emirates, the traditional concept of filial piety remains powerful. In China, our research shows, 88 percent of women express daughterly guilt, and about 58 percent of women in India and China live with an elderly person in the house, a number that's in the single digits in the United States. These women are contributing close to 20 percent of their income to their elders, which is unimaginable in Western countries. Even In Russia, the pensions people receive when they retire are so nominal as to be worth almost nothing, so people rely on their grown children for both housing and sustenance. Meanwhile, in China, the one-child policy burdens the lone adult daughter with the care of her own parents and those of her in-laws.

INTERESTING STATS, BUT WHAT ARE BUSINESSES SUPPOSED TO TAKE AWAY FROM IT?

That in some cultures, you have to sell not only the woman herself but the whole family for her to take or keep a job. Some companies have very successfully done this through "family days," where they bring in in-laws to see what the woman does at work all day. One woman we spoke to started up a shared-services firm for Ernst & Young in India in 2001. After she instituted a family day, she got a letter from a man who was so blown away by the event that he said that he hoped his daughter-in-law would work at the company forever—and that woman is still there.

Companies need to be aware of the stress women face. A study recently found that Indian women were the most stressed in the world. They are working extreme jobs: sixty-plus hours a week, significant travel, 24/7 availability. Of course, that's the case for men too and for anywhere in the world. But these women are also living extreme lives. India is the place where adherence to tradition is the strongest of the geographies we looked at: In addition to your role at work, you have to be a good wife, mother, and daughter-in-law. So you have these very professionally successful women waking up at 4:30 in the morning to cook breakfast for in-laws. Even if they have hired help, it's expected that the daughter-in-law will at least supervise and plan the



In emerging markets with fast-growing economies, where the range of opportunities has literally exploded in the last generation, **there's a great sense of upward mobility and optimism.**

menu, or buy a gift for an uncle-in-law, or do seemingly small things that cumulatively add up to an extreme life.

Still, though they may be stressed, they're not willing to give up a lot of these personal obligations. In many discussions, Indian women say they like having a full-on personal life in addition to their professional one.

ARE WOMEN IN DEVELOPING ECONOMIES AS PROFESSIONALLY AMBITIOUS AS THOSE IN THE WEST?

Often, they're *more* ambitious. In emerging markets with fast-growing economies, where the range of opportunities has literally exploded in the last generation, there's a great sense of upward mobility and optimism. Women don't have the same degree of gender fatigue as in the West, where women are tired of the stasis of the system. In emerging markets, there's a blank-slate phenomenon and an adaptability that comes with it.

I entered the professional world in 1993 in the West, and I don't think the conversation has really moved forward since then in terms of women in the workplace. I started off as a management consultant, and when I looked up, less than 10 percent of partners were women. Today I look at management-consultant partners, and it's exactly the same. The needle hasn't moved as much as I'd anticipated it would. In fact, our research shows that in the United States, only 52 percent of women aspire to hold the top job. Contrast that to 90 percent of women in the United Arab Emirates and 86 percent in India.

Brazil, meanwhile, has a very distinctive culture where people usually go to university while working full-time. Without exception, every well-educated Brazilian woman we interviewed has been working since 18. There's a strong can-do attitude and sense of entrepreneurialism, a real commitment to work, and that filters through to their attitudes about aspiration and ambition. So my main point is that in emerging markets, the needle is moving much faster and you shouldn't assume that women are any less hungry for success and advancement.

AND ARE THEY ACTUALLY SATISFYING THAT HUNGER?

It may come as a surprise to many in the West that in 2009 in India, women represented 11 percent of CEOs—nearly four times the 3 percent for the Fortune 500 in the United States and the FTSE 100 in the United Kingdom. In fact, in financial services in India, you'll see even higher numbers: The biggest banks—multinational and locally headquartered—are all headed up by women.

WHY IS THE FINANCE FIELD SUCH A DRAW FOR INDIAN WOMEN?

A good reason might be that financial-services firms are located in metropolitan areas, as opposed to manufacturing companies that are in far-flung places or sales jobs that require tons of travel. Secondly, in India, there isn't as much of a stigma about women studying mathematics and hard sciences, making financial services an obvious career to go into.

I was surprised when I came to the West. I'm originally from Bangladesh but grew up in Australia and Malaysia, and then moved to the United States for university. I gravitated toward math and science as a personal interest and studied astrophysics as an undergraduate. I was surprised by the stigma associated with doing this in the United States. People were surprised that I, as a woman, had chosen to study physics and astronomy. The same kind of gender perspective for professions isn't as prevalent elsewhere.

YOU ALSO WRITE THAT WOMEN IN DEVELOPING ECONOMIES CLAIM A GREAT DEAL OF LOYALTY TO THEIR EMPLOYERS.

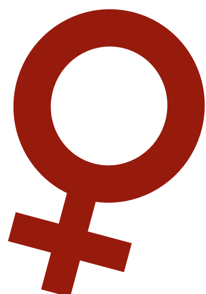
Yes. The typical vision is that top-notch talent in emerging markets are notoriously fickle and move from one company to another in search of bigger titles and paychecks. We actually found women to be remarkably loyal. When they find a place that works well for them, they don't want to move.

MAYBE THAT'S BECAUSE THEY HAVE FEWER OPPORTUNITIES THAN MEN?

That's a valid explanation for some women, but the real takeaway is that if you can build a level of loyalty and trust, women will stay for the long term. For example, we spoke to a woman at an investment bank who said she never managed to get to work until 10 a.m. as her children were growing and she was working her way up. She said that

if a single person had reprimanded her about that, she would've been out the door. But the organization focused on the end result instead of the usual face-time stuff, so she stayed—and eventually became the bank's CEO.

We also spoke to a hiring manager from a multinational company trying to lure a top-notch woman away from an Indian bank, which involved offering a 20 percent pay hike. The senior-level woman at the bank said to the hiring manager: "I need to be honest with you. You can offer me more money and more rank and so forth, but I'm not moving. I have incredible opportunities here. I have grown up in this environment. This organization understands who I am."



Women place more of an emphasis on, **work/life balance.**

I WOULD HAVE CHOSEN THE CASH!

Women look for different value propositions. Men are more likely to go for the extra compensation and title.

I GUESS THAT CONFIRMS MY GENDER.

Ha! The thing is, for women the rewards mix for them moves away from the traditional one that's always appealed to men. Women place more of an emphasis on work/life balance.

MIGHT NOT COMPANIES RATIONALIZE THIS AS A JUSTIFICATION TO PAY WOMEN LESS THAN MEN?

They shouldn't. Instead, companies need to recognize that money and title are important but are not *all* that's important to attract and retain women.

STILL, WOMEN IN EMERGING MARKETS GENERALLY EARN LESS THAN MEN, JUST LIKE IN THE UNITED STATES TO A DIFFERENT EXTENT. DO YOU FEAR THAT GENDER FATIGUE WILL INEVITABLY TAKE HOLD ABROAD?

There are problems with comparing landscapes in the United States and abroad with regard to gender fatigue. Abroad, already the majority of college graduates are female. That's a different starting point than there was in the United States thirty or fifty years ago. Is there a danger of gender fatigue nonetheless? It's anyone's guess. I'm an optimist, so I hope not, but I do think that having a critical mass of women in senior ranks early on in the growth trajectory in organizations abroad hopefully will create an environment very different than what we have in the United States today.

THE UNITED STATES ALSO DIFFERS FROM OTHER PARTS OF THE WORLD REGARDING MATERNITY PROVISIONS.

This country is famous for being the only industrialized nation with no mandated maternity leave. The United States is an employer-, rather than employee-, friendly economy. Contrast that with Russia. Because of its communist legacy, it has a long history of women in the workplace and providing the infrastructure that enables them to remain there. In Russia, it's actually illegal for an employer to fire or even lay off a woman for three years after she has had a baby. During the first four months, the mother is paid her full salary by the regional government. After that and up to eighteen months, she receives a government subsidy, followed by a smaller subsidy for the last eighteen months. During that time, she has the right to return to her same position at the same salary at any time, without notice. If she does return, she also has the right to take a leave of absence at any time during that three-year period, although without salary.

CAN'T THIS LEAD TO A BACKLASH AGAINST HIRING YOUNG MARRIED WOMEN?

Sometimes it can. In China, too, organizations can be more reluctant to hire women who've recently gotten married and *don't* have kids. Because of the one-child policy, companies may be more prone to hire someone who already has a child because they feel, Oh, she's done with having kids and can work more.

YOU MENTION AN EXAMPLE IN YOUR BOOK ABOUT AN EMIRATI WORKING FOR A MULTINATIONAL BANK. SHE COULDN'T GO ON A BUSINESS TRIP TO NEW YORK BECAUSE HER GOVERNMENT DOESN'T ALLOW WOMEN TO BOARD A PLANE OR STAY IN A HOTEL UNLESS A MALE RELATIVE IS WILLING TO TAG ALONG AS A CHAPERONE. MANY WOMEN IN EMERGING MARKETS ALSO HAVE TROUBLE GETTING VISAS TO ENTER AMERICA. I CAN IMAGINE ALL THIS MIGHT DISCOURAGE MULTINATIONALS FROM HIRING WOMEN.

Or it might encourage them to be more creative. Companies can provide options to attend meetings virtually or be cognizant of the fact that they might need an extended budget to allow a woman to travel with her brother or guardian. If she is an employee whom you want to nurture and keep, there are solutions to doing so that are not rocket science. It may cost you something now, but in preventing attrition costs and losses of skills and knowledge later, it's worth the investment. Multinationals need to be more nimble, and the best ones are already aware of that. ■

ARE YOU TOO YOUNG —OR TOO OLD— TO BE A CEO?

BY JAMES M. CITRIN AND JULIE HEMBROCK DAUM

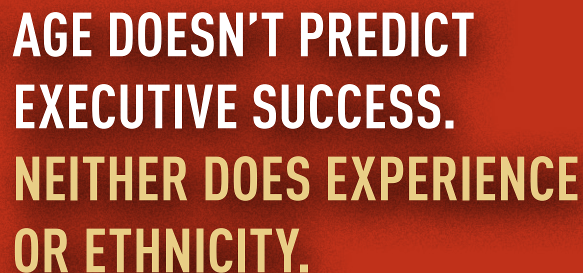
JAMES M. CITRIN is a member of Spencer Stuart's board of directors and co-leads the firm's North American Board & CEO Practice. JULIE HEMBROCK DAUM also sits on Spencer Stuart's board and is co-leader of its North American Board & CEO Practice. Adapted from *You Need a Leader—Now What?: How to Choose the Best Person for Your Organization.* © 2011 by James M. Citrin and Julie Hembrock Daum. Reprinted by permission of Crown Business, an imprint of the Crown Publishing Group, a division of Random House.

IF YOU ARE RECRUITING IN THE UNITED STATES, you probably know that using age as a decision criterion not only is politically incorrect but is a form of discrimination and therefore illegal. Equally important, from a performance perspective, there is no case for setting age as a precondition when deciding upon the next senior-executive hire or CEO.

That is, at top management levels, age has no correlation with—much less causality to—success.

This is not to say that hiring managers and boards don't *think about* age in their leadership decisions. They do so all the time. In fact, age is often the very first thing that they talk about—even though they know they shouldn't—when describing the target profile: *We're looking for a CEO 50 to 55 years old who . . .*

Don't be one of those people. A Spencer Stuart study of CEO transitions makes a strong case to ignore age when considering an otherwise-qualified candidate. Among the three hundred transitions in S&P 500 companies over the 2004-to-2008 time frame, over half of the appointments were individuals in their 50s, 30 percent were in their 40s, and 10 percent were in their 60s. There were even four new CEOs under the age of 40 at the time of their appointment. But no particular group (other than the tiny number of cases of the under-40 CEOs) fared dramatically better or worse in terms of performance.



DOES HE FIT THE PROFILE?

During the spring of 2007, Fox and NBC Universal were looking for a talented digital-media leader to take the helm of the new company that would have exclusive online video rights for their content—a company intended to confront the growing power and competitive threat of YouTube. News Corp. president Peter Chernin and NBC Universal chairman and CEO Jeff Zucker, co-leading the search, met six prominent executives in their 40s and early 50s, in line with tradition and expectations. But when 35-year-old Jason Kilar came into the picture, Chernin and Zucker quickly agreed that the then-unknown executive was the right person to build the business that would become Hulu.

After two post-college years with Disney, Kilar enrolled in Harvard Business School and, in a class called "Managing in the Marketplace," met an ambitious young entrepreneur. After graduation, Kilar shunned the conventional MBA career route of investment banking or consulting—instead, he followed an inspiring visionary named Jeff Bezos to Seattle.

Kilar spent the next nine years at Amazon.com; he began in the marketing department and was quickly dispatched to enter new product areas to push beyond the core business of bookselling; most notably, he developed a business plan and co-launched Amazon.com's foray into video, both DVD and VHS. In 2002, Bezos asked Kilar to lead the Worldwide Application Software business, taking on responsibility

JASON KILAR, STILL UNDER 40, DOESN'T YET FIT THE STANDARD CEO PROFILE THAT MOST RECRUITERS HAVE IN MIND.

for the entire Amazon.com customer experience. This was formative for Kilar in that it instilled an ethic and mindset that has helped drive the company's continuing success: that everything the company does should be evaluated through the lens of the consumer experience. Does a change or an enhancement make the website easier to use and more intuitive? Does a new business or feature fit seamlessly into the whole in a coherent way? Kilar got involved with teams that developed such features as One-Click ordering and offerings such as the Amazon merchant business, which dramatically increased the scope of products offered but did so within the framework and customer experience of Amazon.com.

Kilar left the company on excellent terms and embarked on an ambitious yearlong trip around the world with his wife and young children. Soon after his return, he was working on an entrepreneurial venture developing a media content platform.

How did Hulu find Kilar? At a Fox-NBC meeting, the project teams debated the new business, code-named NewSite. Most predicted that consumers would flock to the site for the deep library of TV shows and movies; others emphasized the promotional power of the major media companies and their broadcast networks. But a small and insightful minority argued that in the world of the Web, where all TV shows and movies would sooner or later find their way online, an extensive library would be insufficient. And as powerful as the broadcast networks were, one had only to look at the scale and power of Google and Facebook to foresee that "old media" promotional power would steadily lessen. The only way to win would be to create the best site with the most compelling and intuitive user experience.

That insight became the guiding light of the search strategy for the leader of this new venture. What company provided consumers the best experience? Amazon.com. Who, other than Jeff Bezos, was the person most responsible for successfully creating that consumer experience? When various current and former Amazon executives were asked, the arrows pointed to Kilar. So he was tracked down and persuaded to abandon his own venture for the opportunity to work with Fox, NBC, and potentially many other world-class partners. After several meetings, he agreed, and in the summer of 2007, Kilar took the helm of NewSite. Four years and a welcome name change later, Hulu garners close to a billion video streams per month and generates over $250 million in revenue.

And Kilar, still under 40, doesn't yet fit the standard CEO profile that most recruiters have in mind.

Indeed, success can come at any age. Consider 61-year-old Brian Duperreault, who took over Marsh & McLennan Cos. after predecessor CEO Michael G. Cherkasky carried out a cleanup in the wake of lawsuits and investigations by the New York attorney general. The company's board appointed Duperreault, a highly experienced insurance executive, in an effort to improve the company's dismal finances and performance in 2004. Beginning his career as an actuary at AIG, Duperreault quickly rose through the ranks of the company as chief casualty officer, senior officer in Japan and Korea, and president of AIU Insurance, among other positions. In 1994, Duperreault took on the leadership of another insurance company, ACE Ltd., as chairman, president, and CEO, where he served successfully for a decade before coming in to lead the turnaround of troubled Marsh & McLennan.

Under Duperreault's aggressive restructuring, the company saw an enormous increase in profits. He simplified the organizational structure to provide clearer accountabilities, made many management changes—replacing several direct reports within his first year—created

a new cross-company CIO role, and replaced the CEO of the company's risk consulting and technology unit. He also implemented a policy to cap Marsh's liability to $10 million per client in an effort to guard against future catastrophes. Overall, Duperreault restored the company's image and took Marsh & McLennan from being a clear market underperformer to an industry leader.

THE LONG RÉSUMÉ

No matter what the industry or sector, recruiters and interviewers tend to define candidates' credibility in the same way: as deriving from a track record of successful previous accomplishment combined with experience sufficiently relevant that an appointment to a key leadership job is seen as logical. That is, all stakeholders see it as successfully putting in place the last piece of a complex jigsaw puzzle.

But what, exactly, constitutes "sufficiently relevant" experience? Must those searching look for a new leader who has been there and done that? In the case of public-company CEO searches, how important is it for a candidate to have served as a public-company CEO? What about functional leaders such as chief financial officers?

When it comes to choosing leaders for public companies, our transition study suggests that first-time CEOs recruited externally actually perform in line with CEOs with prior public-company experience. The issue of experience is not, of course, unique to the case of choosing a CEO: When is it the right decision, for instance, to promote a marketing director into the CMO role, or a vice president of HR into the chief HR officer position, or the senior IT manager into the CIO role?

Consider the finance function. When looking for a new CFO, when is a treasurer, corporate controller, or divisional financial executive the right choice? When is it necessary to bring in a CFO from the outside who has been there and done that? And when is an outsider who is a step-up candidate the right choice?

Between 2005 and 2010, Fortune 500 companies saw an annual average of seventy-six CFO transitions—15 percent of CFOs a year—with 60 percent of the new appointments promoted from within and 40 percent recruited from outside. And in almost every case, those responsible for the search make assumptions similar to those for CEOs: They start by looking for a "proven public-company CFO." However, it turns out that only approximately a fifth of Fortune 500 companies eventually appoint CFOs with public company CFO experience (an additional 5 percent have prior CFO experience in private-companies or nonprofit institutions). Why such a low figure? Because sitting CFOs are reticent to move laterally and have to build new relationships with the CEO, the board and audit committee, and key investors and analysts.

WHEN THE MOVE IS VERTICAL RATHER THAN LATERAL, IT'S EASIER TO DRAW PEOPLE WHO HAVE SERVED IN THE SAME ROLE ELSEWHERE.

Of course, when the move is vertical rather than lateral, it's easier to draw people who have served in the same role elsewhere. Consider Chris Liddell, who was CFO of International Paper and Microsoft before spending fourteen months at General Motors—a company that offers executives a chance to grapple with challenges of unparalleled scope. "About half of the people I talked to about moving to GM thought I was crazy," Liddell told us in 2010, just after arriving. "It was risky from a career perspective to move to Detroit and join what many saw as a failing company that had taken on $50 billion in U.S. government bailout money. But to come

into one of the world's most important and largest companies, which had gone through bankruptcy, and play a key role in one of the most significant turnarounds in business history—it doesn't get more exciting than that."

Another reason why the vast majority of new CFOs do not come from sitting CFO ranks is that the CFO skill set continues to evolve, and the candidate pool would be too restrictive to focus only on those who had been in the roles in the past. In the deal-driven corporate-finance 1980s, bankers were in vogue as CFOs. In the post-Enron, Sarbanes-Oxley era, boards have looked for accounting and control-oriented backgrounds. More recently, capital markets/rating agency/regulator-savvy executives have been in greatest demand.

Location is another factor when it comes to recruiting a sitting CFO versus having to bring in a step-up candidate. Companies are often forced to look at a broader slate of candidates because the obvious pool—sitting public-company CFOs with relevant industry experience—is reluctant to uproot and move to the hiring company's location. The decision then comes down to deciding whether to hire an experienced CFO from a different industry or find a strong number two who knows the sector.

When it comes to financial officers and other functional leaders, the key principle of leadership selection remains that the right choice is about finding not just a great executive but one who fits into the unique company puzzle at a specific time. The added dimension in solving a CFO or other C-suite selection puzzle is that personnel need to complement the CEO's experience and personality.

The bottom line is that the assumption that direct prior experience in a comparable role is a prerequisite to success is just that—an assumption. It's natural to first look for the obvious candidate, but evidence shows no advantage. The best experience may be one, two, or even three steps away from *been there, done that*.

KNOWN QUANTITY

Another dimension of the experience question has to do with industry expertise. When making the choice about who should be appointed to key leadership jobs, one of the first questions with which hiring managers and search committees wrestle is whether industry experience is a must-have or a nice-to-have. In some sectors—pharmaceuticals, technology, financial services, aerospace, energy—many consider it next to impossible to succeed without having come up in that industry. In these sectors, industry experience is widely accepted as a non-debatable leadership requirement when formulating position specifications.

But how frequently do companies go outside of their industry for new leadership? What are the industry dynamics that make it possible or implausible for an industry outsider to succeed? Are there any industries in which outsiders outperform industry-experienced executives?

It turns out that, in Spencer Stuart's study, there are no sectors in which industry outsiders as a group perform better than industry insiders. In one broad sector, diversified industrials, industry outsider performance has matched industry insiders. Several others, including technology and pharma/biotech, are so specialized that there have been virtually no

outsiders to analyze; in others, such as retail, a number of industry outsiders were appointed, suggesting that industry expertise has been considered a nice-to-have. Here are the key factors underlying the top leadership dynamics in selected industries:

In **technology**, companies face intense global competition and pricing pressure even while corporate spending recovers and consumer demand for technology-based products grows. In response, companies have launched dual-track strategies focusing on operational excellence to manage costs while also exploring new and potentially more profitable applications and products. The ever-accelerating convergence of entertainment, communications, and computing, plus the explosion of cloud computing, have led to increasing demand for software, technical, and digital talent to manage the development of innovative products and services. These skills are difficult to find in executives lacking tech-industry experience.

In **pharmaceuticals** and **biotechnology**, varied disciplines are coming together to open new frontiers in areas such as nanotechnology, genomics, proteomics, biodefense, and RNA research. A surge in venture-capital investment, industry consolidation, and the drive to fortify pharmaceutical pipelines is fueling demand for executives grounded in science. The largest pharmaceutical companies are walking a tightrope between the need to develop new blockbuster drugs to fill in product gaps due to expiring patents and demand from investors for double-digit returns. Given these challenges, pharmaceutical companies are demanding leaders with specialized backgrounds in drug development, commercialization, deal-making, and industry operations to pursue the most cost-effective processes for developing the product pipeline, while balancing market, regulatory, and competitive demands. These skills are also considered next to impossible to find outside of pharmaceuticals and biotechnology.

In **retail**, competition for consumer dollars has been greater than ever, and the incessantly competitive environment has created pricing pressures that demand strict cost and inventory control. Retail companies require leaders who

IT'S NATURAL TO FIRST LOOK FOR THE OBVIOUS CANDIDATE, BUT EVIDENCE SHOWS NO ADVANTAGE. THE BEST EXPERIENCE MAY BE ONE, TWO, OR EVEN THREE STEPS AWAY FROM *BEEN THERE, DONE THAT*.

can examine every aspect of the business to streamline processes and costs. They also demand executives with marketing skills, financial acumen, technological expertise, and the creativity necessary to capture market share. In some retail sectors, it is easier to generalize about the skills necessary to thrive in the industry—management experience with multilocation, real-estate-based, and online high-transaction-volume business models, which can be found outside of retail in restaurants, hospitality, rental cars, or even consumer banking. The major exception to considering generalized management talent for the retail industry is for fashion-based apparel companies, which generally require design and merchandising expertise.

In the **diversified industrial** sector, the transformation brought about by technological advancements, global procurement, and international expansion is driving demand for executives with geographically diverse experience, as well as the financial know-how to run these complex companies. While exposure to and familiarity with the specific sector in question is important, industrial leaders generally need to be more talented general managers than industry experts. Clear-cut examples of this are Alan Mulally at Ford and Ed Whitacre at General Motors. Having served as chairman of the company for a mere three months before he took on the additional role of CEO, Whitacre demonstrated the adaptability to move to the manufacturing giant, switching from the telecommunications industry, where he was the long-serving and high-performing CEO of AT&T and its predecessor company, SBC Communications. His general management and leadership skills honed by three decades at the top of a multinational company proved more important than his inexperience at an automaker. His GM successor, board member Dan Akerson, is also an industry outsider—like Whitacre, he has a telecommunications background.

For both executives and boards in specialized industries, insularity is a real danger. One solution: complementing industry insiders in the CEO position with outsiders in the CFO role. Among Fortune 500 companies, those in the retail, communications/media/technology, and pharma/biotech industries—those which have shown the greatest proclivity to staying inside and in their own industries for the CEO role—have appointed the greatest proportion of CFOs from outside the sector. In contrast, the diversified industrial sector, the one which has proven most able to accommodate high-performing industry outsiders in the CEO role, has been the one with the smallest proportion of outsiders in the CFO role. In any industry, organizational leadership is a team sport, not a solo activity.

FOR BOTH EXECUTIVES AND BOARDS IN SPECIALIZED INDUSTRIES, INSULARITY IS A REAL DANGER.

¿HABLAS ESPAÑOL?

You might think that Univision, the United States' largest Spanish-language media company, would require Hispanic leaders—or at a minimum Spanish-speakers. But as CEO Joe Uva demonstrated over four years at the helm, success can come in many languages. Uva's Spanish-language skills are those of a high-school student who has taken a few courses. But he does know media and how to lead an organization. Most important, in the specific context of Univision, he had the sensitivity to and respect for the cultures of the company's diverse audience segments and employees that enabled him to overcome the visible ethnic gap in his background.

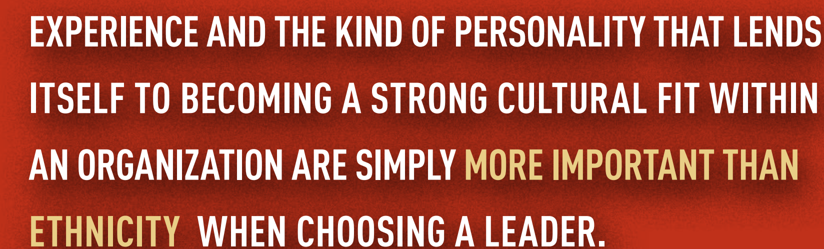
It's not only traditional companies that face issues of hiring diversity at the top. When it comes to ethnocentric organizations, such as Hispanic-oriented Univision and Telemundo, or African-American–focused BET, Radio One, and Essence Communications, the question of what is acceptable in terms of ethnicity for senior leaders is both delicate and important. As long as an

otherwise-highly-qualified candidate has cultural sensitivity and respect for and understanding of other cultures, hiring managers should consider ethnicity as only one of the broader list of attributes that define who is the best leader to solve a situational puzzle.

At a time when most broadcast networks have suffered financial and viewership losses, Univision has been building giant audiences and advertiser appeal. In September 2010, Univision was the country's most popular network among viewers aged 18 to 49, the first time a Spanish-language station defeated CBS, ABC, Fox, and NBC in this key demographic. During Spain's 1–0 win over the Netherlands in the final of the 2010 World Cup in South Africa, Univision drew an audience in the United States of 8.8 million, against ABC's draw of 15.5 million.

In his four years at Univision, Uva dedicated much of his time to clients, actively working with the advertising sales staff and inspiring the company's different divisions to work closely together. Under his guidance, the broadcast and interactive programming reinforced each other, driving audiences to experience the company's content on multiple platforms. With an extensive background in media and marketing, Uva was well aware of the opportunities presented by the Hispanic marketplace. In fact, in his previous role, as president and CEO of the media buying agency OMD Worldwide (a division of advertising company Omnicom), Uva helped create OMD Latino.

With his enthusiasm for and knowledge of the sector, it didn't matter that Joe Uva wasn't much of a Spanish-speaker. And his leadership of the company didn't require a massive overhaul of the management, either. After carefully evaluating each executive, Uva replaced only three of the company's top fifteen executives and promoted some rising stars into top leadership roles, such as



35-year-old Cesar Conde as president of Univision Networks. Uva also showed that the right person for a particular job was a function of the need coupled with the ability of the executive to be effective within the company's context rather than necessarily be Hispanic or even Spanish-speaking. For example, one of the key drivers of the company's growth has been English-speaking Kevin Conroy, who leads Univision's interactive division, having forged an excellent reputation at AOL for new product development and marketing.

In replacing Uva, the Univision board of directors chose to stick to a successful pattern. In June 2011, Univision COO Randy Falco, who Uva had brought into the company after a long-serving NBC career and a stint as CEO of AOL, was promoted to CEO. Like Uva, he doesn't speak Spanish.

Experience and the kind of personality that lends itself to becoming a strong cultural fit within an organization are simply more important than ethnicity when choosing a leader. Where someone is born, even what language someone speaks, should not necessarily restrict one's ability to fit in. A person's ability to understand a particular market and be an inspiring and effective leader can be universal.

Indeed, a candidate's personality and experience—less the number of years in a given industry than her direction, ambition, and accomplishments—trump everything else when it comes to tapping new members of the C-suite. At the least, it's important to be aware of our natural assumptions about what a new CEO or CFO, and her résumé, should look like—and to be ready to discount or even dismiss those assumptions as irrelevant. ■

BY STANLEY S. LITOW

OVERSEAS ASSIGNMENTS FOR A CHANGING WORLD.

NO MORE

AMERICAN EXECUTIVES ARE FAMILIAR WITH THE TRADITIONAL LONG-TERM INTERNATIONAL ASSIGNMENT: relocating a skilled senior executive to London, Paris, Berlin, or Tokyo for up to three years, with the object of filling a skills gap and cultivating insight into that locale's unique culture, business style, and marketplace potential. After all, the nature of business is international in scope, and it won't do to assume that every market and employee population will share the same characteristics and skills as the ones in a corporation's base of operations.

But while the goal might be to build skills and expose executives to other countries' business practices and other parts of a global operation, in practice these assignments have real drawbacks.

For one thing, they're too long and expensive, forcing the home office to backfill the vacant position. Moving, living, and tax expenses for assignees can easily exceed $1 million annually. These assignments rarely encourage participants to engage meaningfully with locals, learn more than a few words of the local language, or absorb enough new information to justify the expense. Perhaps most problematic is that international assignments tend to focus on lone executives at mid-career or end-of-career rather than aiming to develop the skills of teams of emerging leaders.

In short: This vehicle for professional development desperately needs to be overhauled. For decades, we have been sending too many of the wrong people to the wrong places for the wrong length of time.

STANLEY S. LITOW is vice president of IBM Corporate Citizenship & Corporate Affairs and president of the IBM International Foundation.

Recent shifts in the global economy dictate changes in employee skills and employer investment. The nature of the international corporation has also transformed, requiring cultural adaptability—not of just a few senior leaders but of many emerging leaders in its ranks. These factors, and others, have converged to require a complete reengineering of the concept of international assignment. It needs to be viewed as an intense leadership-development and learning experience where new skills and new insights can be cultivated, and where building the skills of local staff is an equally important by-product.

Today, companies should consider shorter-term, more immersive, and less expensive team assignments overseas. These should definitely not be for only mature or mid-career executives either—the traditional corporate expats. Instead, they should be tailored to top-performing emerging leadership—and then shared among teams of employees, not just individuals. Teams need to comprise individuals with a variety of key skills and backgrounds.

The destinations ought to include locales where the parent company does not yet have a presence. The focus should be on key growth markets—such as China, Vietnam, Nigeria, Kenya, Indonesia, and Poland—where one can build relationships and strengthen the company's brand. And participants need to get out of the office and work with local clients, especially governments and quasi-NGOs. They should perform work for organizations abroad that may otherwise lack sufficient resources or know-how to easily fulfill their missions. Assignees can then bring back insights into prospective clients' real-world marketplace demands and trends.

And assignees ought to work as part of a global team. Such a team-based approach can have a transformative effect on its participants, enabling them to form career-long relationships and hone their collaborative, improvisational, creative, and leadership skills. They gain a better idea of how other job types relate to their own. They can establish mentor relationships with remote employees and continue those relationships electronically. They are imbued with a sense of pride for helping others and develop deeper loyalty toward their company.

And all this can and should happen in a much shorter timeframe than we've traditionally seen in international programs, making it scalable and affordable. Assignments need to be measured in weeks, not months. With absences no longer than an extended vacation, positions back home needn't be backfilled.

At IBM, we've implemented this approach over the last three years through our Corporate Service Corps, a program that systematically sends teams of top talent to assist local governments and civic groups overseas by solving critical problems. The IBM teams take on issues that improve local economic conditions and support entrepreneurship as well as enhance quality-of-life issues such as transportation, education, and health care. The company has dispatched 1,200 employees on more than 120 engagements in some two dozen countries. The cost of each engagement—typically lasting a month on the ground, with several months of pre and post-assignment work completed while participants continue to do their day jobs—is a fraction of the cost of a traditional international assignment.

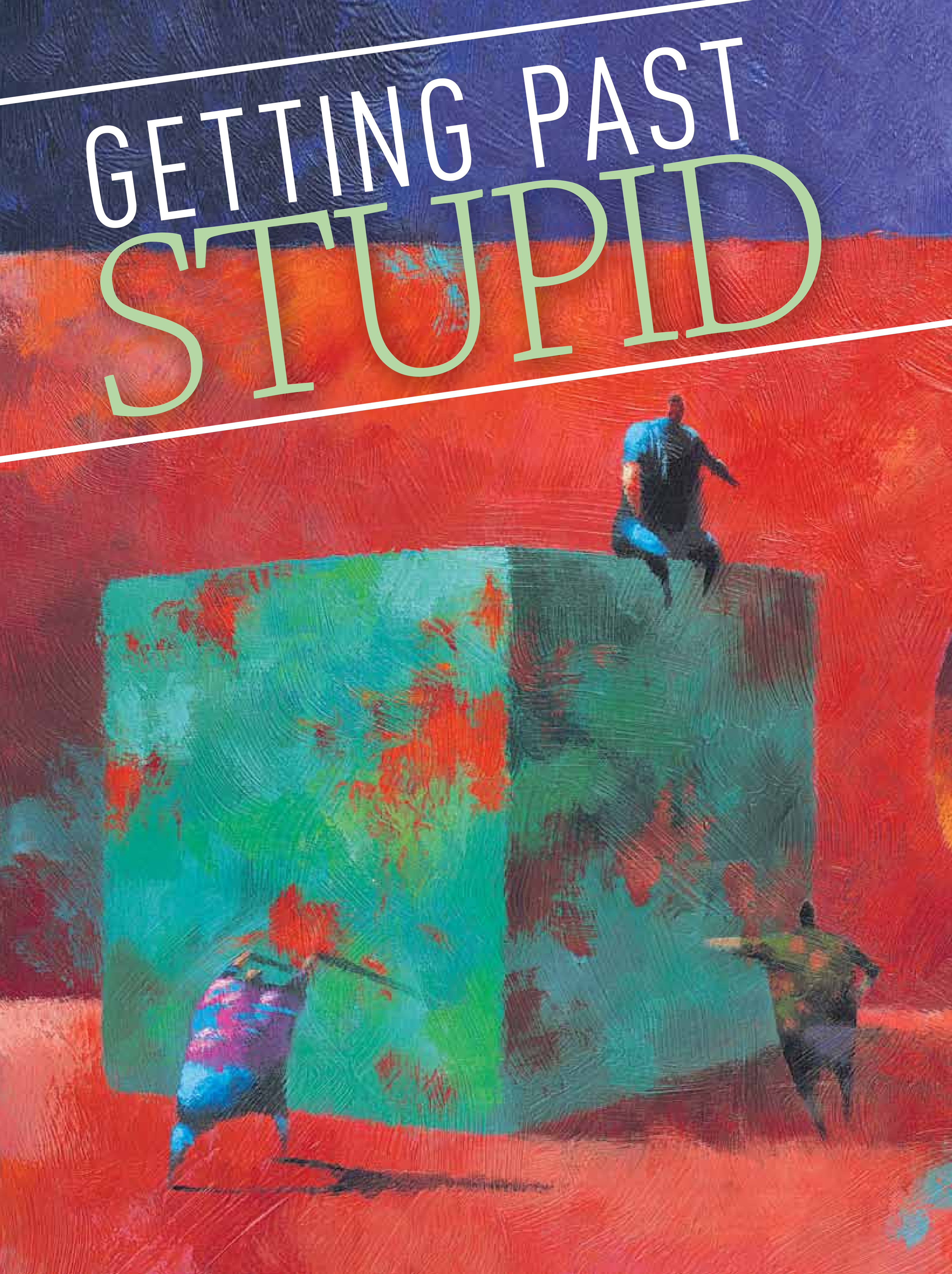
Such a program perfectly aligns our social-responsibility agenda with our business goals. In fact, an independent evaluation conducted by Harvard Business School professor Chris Marquis identified measurable returns in skills obtained, value on the ground, and more important, retention of top talent.

The U.S. State Department has taken notice—it sees international program participants as de facto ambassadors practicing a sort of citizen diplomacy, showing Americans as innovative and progressive. To that end, the United States Agency for International Development recently sought IBM's cooperation in helping other companies looking to replicate our program, and created a program for corporate international volunteerism to extend the IBM model. Already, we are helping companies that have been quick to recognize the benefits of such a program, such as FedEx and Dow Corning.

With budgets ever tighter and leadership-development efforts under greater pressure, every multinational company will surely be revisiting its overseas-assignment program. And the revamped programs will resemble IBM's much more than the traditional model. Shorter, team-based international engagements by a more diverse mix of emerging talent, working on a more varied selection of intense assignments, are changing the nature of leadership development. They provide the twenty-first-century corporation with a pool of talent of nearly unlimited potential, offering the skills and management know-how needed to meet tomorrow's challenges. ■

YEAR IN PARIS?

GETTING PAST STUPID



STEPHEN SHAPIRO EXPLAINS WHY EFFORTS TO STAY AHEAD **WILL OFTEN LEAVE YOU BEHIND.**

BY VADIM LIBERMAN

Vadim Liberman is senior editor of *TCB Review.*

HERE'S HOW TO GUARANTEE YOUR COMPANY'S SUCCESS: Look at what other leading businesses are doing right, implement their processes at your organization, and then—wow!—watch your stock price and market share grow. If only it were that easy.

In fact, imitation may be the sincerest form of inanity. "Best practices are not universally applicable, because every company is different," explains Stephen Shapiro. "Even if you wanted to replicate what someone else is doing in order to differentiate your own company, you're really just following in the footsteps of others. Doing that is not a source of differentiation or a means to stay competitive."

In his new book, *Best Practices Are Stupid: 40 Ways to Out-Innovate the Competition* (Portfolio/Penguin), Shapiro, 47, argues that most of the things that companies do in the name of innovation actually destroy it. In fact, not looking to best practices is often itself the best practice. Shapiro, chief innovation officer at InnoCentive, a crowdsourcing consultancy, spoke from his Quincy, Mass., home office about where and how to look for ideas and why innovating is all about asking the right question the right way of the right people.

YOU LIST FORTY TIPS TO HELP ORGANIZATIONS INNOVATE. AREN'T THESE ESSENTIALLY BEST PRACTICES? IN OTHER WORDS, COULD YOUR BOOK HAVE BEEN CALLED *BEST PRACTICES ARE STUPID UNLESS RECOMMENDED BY STEPHEN M. SHAPIRO*?

I don't know about that, because I'm not saying that *all* best practices are stupid. I am just against using them as your innovation strategy to differentiate your company. For example, best practices can actually be useful in financial or human-resources management because you don't need to reinvent those wheels. But if you believe that doing what another company is doing will help you catch up to or beat competitors, it won't. Innovation is about staying ahead of the competition, not about new products, new processes, new services, new business models, or even new ideas.

BUT ISN'T DEVELOPING SOMETHING NEW HOW A COMPANY STAYS AHEAD?

When I look at the most successful companies staying ahead of their competition, they don't actually develop really sexy things—they find great ways to commercialize old products in new ways.

EXACTLY! YOU JUST SAID IT: "*NEW* WAYS."

I guess what I'm really saying is that we get so enamored with thinking that innovation is about the new product or new idea that we develop something new for the sake of developing something new. But it's easy to develop a sexy product the market doesn't want or that you can't sell at a reasonable cost. In reality, it's the combination of many factors that must come together to take a challenge or problem or opportunity and convert it into something that creates value. Yet we get stuck in the middle of the innovation process, which is, *Hey, let's develop new ideas!* Companies hold brainstorming sessions, create flip charts, and write Post-It notes, creating a series of events. *Let's go sit in a room and develop a concept.* That's destructive for a lot of organizations, because what most people come up with tends not to be relevant or strategic or implementable for a variety of reasons. You end up wasting a lot of resources without creating value.

IN FACT, YOU SAY THAT ASKING FOR A LOT OF IDEAS IS ITSELF A BAD IDEA.

When you ask crowds for general ideas, which are essentially variations on suggestions and opinions, you end up with too wide a variety. For example, a large European retail bank that was suffering from eroding market share decided to get input from all its employees on ways to improve and grow the business. The company received thousands of ideas. In the end, none were implemented.

If you ever go onto the "My Starbucks Idea" webpage, where the company asks customers what they think, you're going to find that some people want more foam, less foam, larger cups, smaller cups, hotter or colder. Everyone has an opinion. When you ask many people for their suggestions, you're going to get fluffiness, noise, and uselessness. The ideas tend to be impractical and of low value. I can tell you— based on a number of companies I've worked with that went down this path—that the ratio of good ideas to bad ideas is often one to one thousand.

ISN'T IT WORTH IT TO GET THAT ONE GOOD IDEA?

No—it's a waste of resources. If a company had an unlimited amount of time and money, I would say, *Go for it!* But innovation is always constrained by finances and time. There are more efficient ways to get that good idea: Ask very pointed questions rather than for general input. Einstein said if that if he had an hour to save the world, he'd spend fifty-nine minutes defining the problem and one minute finding the solution. The reality is that people spend sixty minutes running around finding solutions to problems that don't matter or that were never defined properly.

FAIR ENOUGH, BUT YOU SAY THAT EVEN ASKING EMPLOYEES TO THINK OF WAYS TO INCREASE REVENUE ISN'T SPECIFIC ENOUGH.

Raising revenue is a lofty goal, but posing this type of challenge usually results in fluffy solutions. Instead of asking people for broad ideas on how to raise revenue, you're better off defining very specific challenges: Are there specific markets that you have not penetrated? Are you missing out on customer segments that present a greater opportunity?

A poor example of crowdsourcing is the BP oil spill, where the company asked a really broad question: How do we solve the oil-spill problem? They got 123,000 solutions, and very few were useful. Had

When you ask many people for their suggestions, you're going to get fluffiness, noise, and uselessness. The ideas tend to be impractical and of low value.

they taken the time to deconstruct the problem to come up with a more specific question, they probably would've had more valuable solutions earlier.

WHAT SHOULD THE COMPANY HAVE ASKED?

I'm not an expert in this particular discipline, but they could have narrowed the problem like Exxon did after the *Valdez* spill. Exxon asked about one specific issue, something about the density of oil in cold water—a very pointed question about fluid dynamics—which led to a solution from someone who worked with cement and understood how dense liquids operate.

YOU WRITE THAT RATHER THAN FINDING NEW IDEAS, CROWDS ARE BETTER AT ELIMINATING BAD ONES.

That's true. When developing titles for my new book, we used crowdsourcing. What we found was that there was no convergence on which titles they liked. The input from the crowd created more confusion. However, when we asked the crowd to tell us which titles they did *not* like, there was a high level of agreement. We were able to quickly eliminate a large percentage of the titles.

WHEN SHOULD AN ORGANIZATION CONSULT EXPERTS?

As I say in my book, expertise is the enemy of innovation. But it depends on the problem that needs to be solved. Many problems can be solved by experts, like if you're a chemist and working on a chemistry problem. Other times, the problem needs to be solved by some fundamentally new perspective, so you'll have to go beyond the usual experts. Again, it's all about framing the question properly.

BUT DOESN'T WIDENING THE POOL BEYOND EXPERTS RISK THE PITFALL YOU DESCRIBED OF GETTING A LOT OF "NOISE"?

Sure, you're going to get some noise, but if you define the problem properly and narrowly, the question becomes a self-vetting process, especially if you add evaluation criteria in the challenge. You create an environment where people will stop themselves from contributing ideas that aren't valuable.

AND THEN THERE ARE SITUATIONS IN WHICH PEOPLE WILL COMPETE TO PRODUCE THE BEST IDEAS.

One way is through innovation tournaments, where the winner is the one who comes up with the best idea. Other times, organizations will take a bounty-hunting approach, where a company will define the challenge as specifically as possible, so there may not be a winner if no one develops the right solution. For example, in the case of the Netflix Prize, the company paid only the team that ultimately improved the recommendation engine by 10 percent.

Bounties are ideal when you know what you are looking for. When you can clearly identify the evaluation criteria, a bounty will focus the solvers and also ensure you are only paying for results. But sometimes you don't know exactly what you need or want. Therefore, you need to do something more exploratory. In these situations, tournaments are good since they provide a wider range of input.

SPEAKING OF REWARDING PEOPLE, WHY DO YOU INSTRUCT COMPANIES TO STOP REWARDING PEOPLE FOR DOING THEIR JOBS?

When you hire people to work for you, it should be expected that they have a basic level of competence. When you simply recognize people for doing what they are hired to do, it reinforces a culture where the status quo is good enough. If the company is so risk-averse that people aren't willing to try anything new, while all you do is reward people for doing what they've always done, all you'll get is more of the same.

IF YOU'RE HIRING ONLY PEOPLE WHO FIT THE MOLD, YOU PERPETUATE THE CULTURE, AND CULTURE IS A CULT, AND CULTS ARE EFFICIENT, BUT THERE TENDS TO BE NO DIVERSE THINKING IN CULTS.

BEFORE ANYONE TRIES SOMETHING NEW, THEY HAVE TO *THINK* OF TRYING SOMETHING NEW. COMPANIES LIKE GOOGLE AND 3M ARE WELL-KNOWN FOR GIVING THEIR EMPLOYEES AMPLE TIME TO THINK, BUT YOU—

I have a problem with the way some organizations approach this, like by letting employees use 20 percent of their time to develop new ideas as Google does, or 15 percent as 3M does. These companies basically say you have a certain percentage of your time to think about what is of interest to you, but allowing employees to dedicate a percent of their time to innovation efforts of their choosing is akin to the infinite-monkey theorem: If you give an infinite number of monkeys an infinite number of typewriters, they will eventually write *War and Peace*. The belief is that if you give employees enough time to tinker around and develop enough harebrained ideas, they will eventually find the next big innovation. Although this might yield new ideas, it's hardly an efficient way to innovate. I'd rather have people reflect on which problems, if we solve them right now, would produce value for the organization.

INTERESTINGLY, YOU RECOMMEND HIRING PEOPLE YOU DON'T LIKE.

It is human psychology for us to want to surround ourselves, particularly in the business world, with people who are like us, who have similar beliefs and personalities. As a result, we end up with efficiency—when we have a bunch of people who think the same way, act the same way, and talk the same way, we can agree quickly and get things done quickly. But efficiency doesn't generate creativity or innovation. If you're hiring only people who fit the mold, you perpetuate the culture, and culture is a cult, and cults are efficient, but there tends to be no diverse thinking in cults.

For instance, my natural tendency is to be highly creative, not to be boxed in to anything. The people I typically avoid are the really anal-retentive planners. What I've learned is that I can't be successful without these people. So I hire in pairs—workers who are opposites of each other—to build this type of tension into the organization and then manage it properly.

BUT ISN'T HIRING PEOPLE WHO ARE UNLIKE YOU DIFFERENT THAN HIRING PEOPLE YOU DON'T LIKE?

A lot of times, the reason certain people annoy us is because they think differently than we do, so it's usually the same thing, even if we don't realize it.

I had a conversation just the other day with a client, who told me about a job candidate who was very argumentative in the interview. The interviewer went to his boss and said that this guy is really good, but he's just not a fit for the company. And the boss said, "That's why we need to hire him." The new employee took a little getting used to, but he added divergent thinking and value to the organization.

WHEN IT COMES TO CREATIVITY, WHY DO YOU INSIST THAT MEASURING IT ONLY ENDS UP STIFLING IT?

There's definitely a place for measuring creativity, and the reality is that organizations have to measure it like they do many other things. The question is: Are we measuring the right things? So it's not measuring creativity but how companies are doing it that's the problem. A lot of organizations measure it based on the number of ideas someone suggests.

I THINK WE ALL KNOW SOMEONE AT WORK WHO ALWAYS HAS AN IDEA FOR EVERYTHING.

Right, and how often are those ideas actually implemented? It's easy to suggest an idea. What's difficult is to suggest a real solution to an important problem. It's not about the quantity of contributions but about the quality, but because numbers are an easy way to measure, we go by very objective measures that focus on quantity. This gives us very misleading results. If I am to be measured by how quickly I can do something or the quantity of ideas I generate, we've done nothing to say whether I am actually valuable. ■

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A CLOSER LOOK

REASSESSING EXECUTIVES' VALUE IN A CHANGING ECONOMY.

By John Buchanan

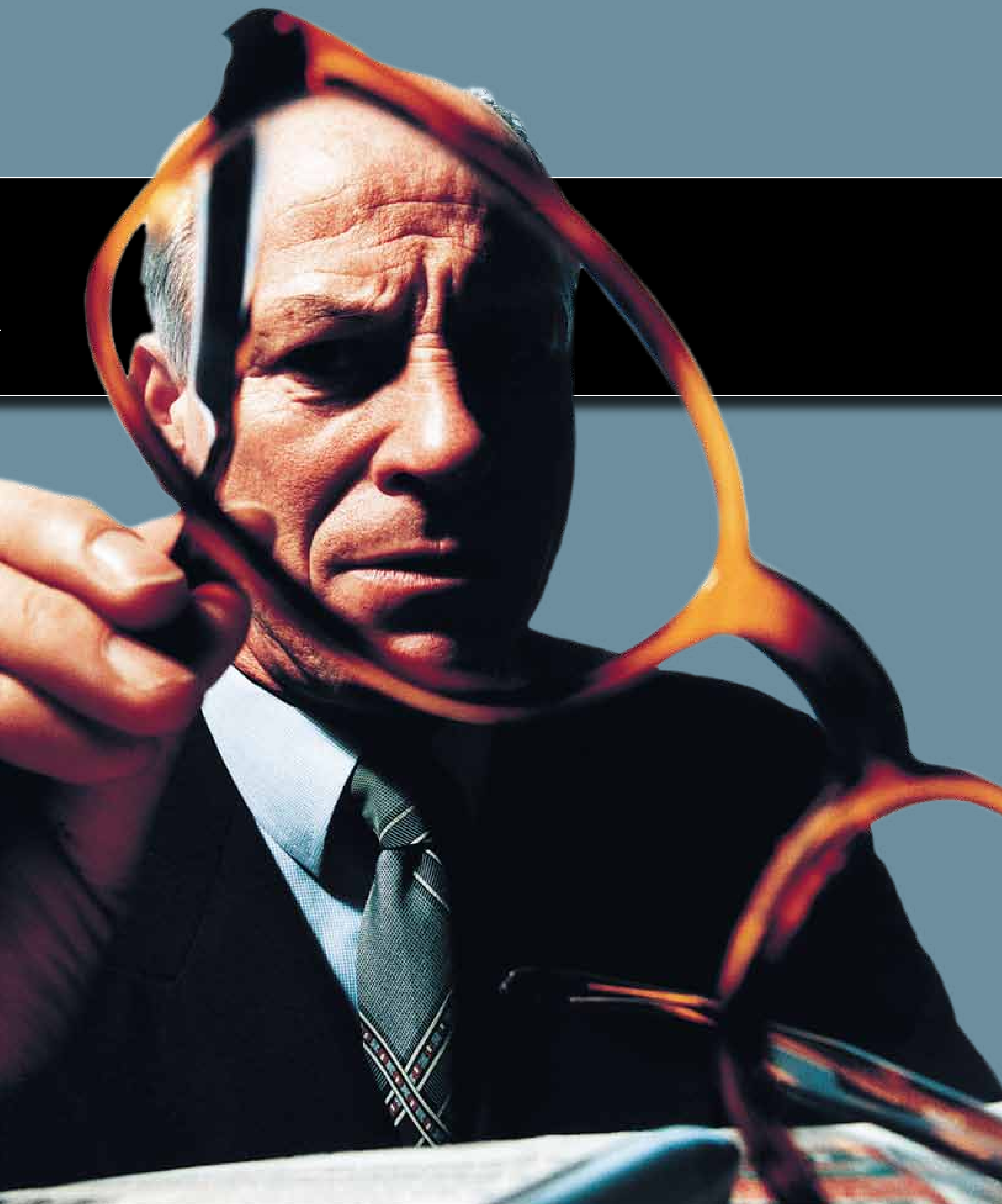
THINK THAT NEW OPPORTUNITIES, ADVANCEMENT WITHIN YOUR OWN ORGANIZATION, AND A BIGGER NUMBER FOR YOUR NEXT COMP PACKAGE ARE IN YOUR FUTURE? NOT SO FAST. Though you may be confident of your skills and past performance, you may be the only one. Be warned: In this rocky economic landscape, those responsible for assessing and valuing C-suite talent are assessing candidates with fresh eyes.

Companies are less willing to make risky hires or promotions; moves that would have raised no eyebrows now come with question marks attached. And résumés no longer get away with skipped years and fudged language. "There's far more transparency and accountability than there has ever been before for CEOs and other C-suite executives," says Patricia Lenkov, a veteran of Spencer Stuart and Heidrick & Struggles and now president of New York-based Agility Executive Search.

And there's less margin for error. "The board needs to know that the risk is as minimal as possible," Lenkov says. "And that concern for risk in hiring is a direct result of the recession."

Underlying the specific concern of risk mitigation is a factor that runs deeper, notes Jane Stevenson, Korn/Ferry's vice chair for CEO and board services in Atlanta. "The level of fear that I see in the business environment today is pretty

JOHN BUCHANAN is a journalist, author, and screenwriter. He lives in Cocoa Beach, Fla. His last article for the magazine was "It Could Happen to You," about white-collar crime, in the Spring 2011 issue.



unparalleled," says Stevenson, author of *Breaking Away: How Great Leaders Create Innovation That Drives Sustainable Growth—and Why Others Fail*. "It's beyond anything we've seen in the last several decades."

And that fear is grounded, she says, in a perhaps inadvertent result of past corporate governance—or lack thereof. "What we did in the past from a leadership standpoint was, in a way, to define success as not making mistakes," she says. "And to move the needle forward and to push into a growth mentality going forward, you've got to be able to get people focused on opportunity and not just looking at the CYA behavior that is the immediate knee-jerk reaction for most leaders."

WHAT DID YOU DO IN THE WAR?

So there's heightened wariness toward past mistakes—and yet an emphasis on aggressive, results-based thought and action. It's a tall order. "When prospective employers look at a candidate now," says Mark DeVerges, a recruiter at Asheville, N.C.-based Kimmel & Associates, "there is a fourth leg to the traditional three legs of, 'How did you save money, make money, and solve problems?' And that is the ever-more-important new question, 'How did you survive the meltdown? How did you enable your company to stay nimble and profitable during the worst of the recession?' Those kinds of basic past-performance metrics are the gold standard in the C-suite now."

New York-based recruiter Janice Ellig agrees: "Boards are taking a look at what happened with the meltdown and then looking at a person and asking, 'Was this person part of the solution or part of the problem? What did they do? What did they accomplish? What are they known for?'" In turn, that newly aroused curiosity is demonstrating itself in more aggressive scrutiny of potential C-suite recruits. "The demand now is for a demonstrated record of legal and ethical behavior, especially under challenging circumstances," Ellig says. "Proven integrity is more important than ever. Boards are saying, 'We don't want to get burned.' So they are asking very specific questions now."

This means closer scrutiny of past records, with less taken on faith than in the past. "Since the financial crisis," says Cleveland-based recruiter Jeff Christian, "every C-suite executive is more exposed, and they must be able to show a direct connection to business revenue and valuation." By that simple standard alone, he says, many would-be candidates for top jobs today will not make even the first cut.

Even if a candidate advances to the later stages of a search, Lenkov notes, a résumé, track record, and references are no longer enough. "The old rationale of 'been there, done that, can do that again' no longer holds as much weight," she says. "Boards and shareholders now want to make sure that your specific skill sets match the precise needs of the organization for the future." Indeed, she sees a genuine sea change in the way C-suite talent is perceived and valued. "The days of the rock-star CEO or CFO are over," she says. "It's no longer about your name or what you've done in the past. It's about what you're going to do in the future and what your real skills are. It's much less about glamour and more about real substance now."

Steve Watson, managing director of search firm Stanton Chase's Dallas office, agrees. "The days of the executive who can sit in the ivory tower and take in information and lead teams—but who really doesn't understand the entire business in great detail—are also over," he says. And for C-suite executives across corporate America, the message is now loud and clear: "No longer can a C-suite executive sit in an executive staff meeting and have the CEO ask, 'Why does our new product have some defects that are causing delays?' and then say, 'Let me get my quality manager to answer that question.' Today, it's expected that every C-suite executive can answer questions about

“There’s far more transparency and accountability than there has ever been before for CEOs and other C-suite executives.

the details of the enterprise and understand what's going on with R&D and sales and customers."

TOP TIER VS. SECOND TIER

The result of all this scrutiny and assessment by boards, search committees, and recruiters: Executives are increasingly classified as in-demand elites or also-rans. And never has that distinction been more harshly and clearly applied, the experts concur. They see it as a new level of corporate Darwinism—and agree that, indeed, only the fittest will survive and prosper.

The practical reality is that you either have the right skills and experience or you do not, Stevenson says. You can't claim them overnight. "If you're a turnaround, cost-cutting kind of CEO or CFO, it's hard to suddenly develop—just through sudden awareness—the skills to fully activate a team and build a growth cycle. It's not like you can wake up and say, 'I'm going to start empowering my workforce today.'"

The obvious question, then, is which skills command respect and rewards today, and which are seen as less relevant in this economic climate.

"One of the big issues now is finding and unlocking value in the enterprise—whether that's connecting to a new market or developing new products or offering consumer insights that reshape the business," Stevenson says. "It can also mean that the person understands how to fund growth by divesting non-core businesses or looking at the way the budget is allocated in terms of providing ammunition to load the gun." Christian adds that executives with a record of fixing underperforming organizations are seen as particularly appealing.

Yet another result of the downturn is more demand for executives with a proven ability to manage with limited resources, such as a downsized workforce, Lenkov says. "You have to be able to show that you have mobilized and maximized available resources efficiently. It comes down to showing you can execute a plan and really get things done. The world moves in a flash now. There's no longer time for deliberation or indecision. You have to be able to move very quickly."

In addition, you must have the proven ability to manage complexity, says Ron Ashkenas, a senior partner at Stamford, Conn.-based Schaffer Consulting. "That has always been part of a leader's job. But today, coping with ever-increasing complexity is more important than ever. For example, many companies have downsized—mid-level and even senior executives are gone. But taking all those people out doesn't change the nature of the work. It just leaves a lot fewer people to do the work. Therefore, it's impossible for those fewer people to do the work the same way it was done before." As a result, Ashkenas says, C-suite executives now must drive and streamline work processes and human resources—to get more from less.

Finally, says Stevenson, top C-suite recruits will now share another important and less-discussed capability—the ability to prioritize. "The leaders who ultimately will be successful are going to be the ones who are paying attention to these issues on a day-to-day basis and thinking outside the next quarter's results and who have the credibility, both internally and externally, to be able to say no if that's necessary," she says.

Ellig agrees wholeheartedly—and takes the point a step further. "You have to have a track record of standing up and taking an unpopular stand if it's the right thing to do," she says. "It's not about being a contrarian. It's about being the conscience of the company."

HOW MUCH ARE YOU WORTH TODAY?

In the C-suite, pay has been all about performance for some years. But the metrics are changing. Not all performance is equal.

Sometimes the measurements are straightforward and traditional. "You're seeing more pay-for-performance based on the market cap of the company the day you came on board and, then, a year or two years later," says New York-based executive recruiter Charley Polachi. "That's a very easy calculation to make. If the company was worth $1 billion when you signed on and it's worth $2 billion a year later, you're going to get a big bonus. If it's worth half a billion, you're probably going to lose your job."

Increasingly, those scrutinizing executives' fiscal records are looking at more ambitious metrics. Gary Hourihan, senior VP at Los Angeles-based compensation consultancy Farient Advisors, sees boards "stretching the goals of the company in terms of what it can aim for and achieve in a recovered economy. And that raises the bar even further in terms of expectations."

Given such expectations, boards and compensation committees are relying more on restricted stock units and less on traditional stock options or bonus structures. And the important new detail is that the stock units, or any

other element of a comp package, are vested or triggered by performance, based on clearly defined measurements of success. "Even annual grants are not as 'automatic' as they were before," Steve Watson says. "They too are now more based on actual company performance."

The bottom line is that of necessity—given headlines of the last three years and increased regulatory pressures such as Dodd-Frank—boards are more cautious than ever before in hiring and compensating a new executive, Stevenson says.

Boards are also "smarter about the process of recruitment now," Christian says. "They're negotiating harder. They're not so quick to offer the person what he says he wants. They're spending more time checking references. They're pushing back more. They're thinking differently about the entire process."

One significant change may come as a surprise—an unpleasant one. Much like lower-level employees have been treated historically, newly hired C-suite executives are being required to prove themselves before the major elements of their comp packages are delivered. In effect, they face a probationary period. "Boards are saying, 'Prove to us that you're as good as you say you are, and *then* we'll take care of you,'" Watson says.

Hourihan has observed the same change. "And you see it in the fact that the signing bonuses people are getting tend to be less," he says. "Things are tied more to '*do* this and you'll *get* that.'"

That, Watson says, is the real shift in the valuation and oversight of C-suite talent. "If you hit the ball out of the park, you will get rewarded," he says. "If you don't perform, you won't get anything."

Stevenson also sees more executives being tested by the standard of immediate performance based on mutually agreed-to business goals. "And if you don't deliver, you will be gone more quickly in the current environment," she says. "Boards are pulling the trigger more quickly now when they realize they've made a mistake. Just look at CEO tenure. It used to average fifteen or twenty years. Now it's down to five. That tells you everything you need to understand."

WHO GETS IT, WHO DOESN'T

Just as there are two groups of C-suite execs when it comes to relevant skills and experience, there are two groups when it comes to the changes the experts invoke.

THE BIG MARKDOWN

It's not just that certain skills have shot to the top of the wish list for boards, selection committees, and recruiters. Others have been *devalued*. Here's what experts identify as "discounted" capabilities in the new talent marketplace.

Jane Stevenson, Korn/Ferry: "The authoritarian mindset that was a staple of top leadership in the past is of far less value today. The need for today's leaders to work across divergent industry sectors and multiple levels of people creates complexity that requires vision, influence, and inspiration, versus directives by hierarchy."

Ron Ashkenas, Schaffer Consulting: "Traditional strategic-planning skills are no longer as valuable. C-suite executives still need to develop strategies, but the long, slow, analytical process with lots of data, meetings, reports, consultants, and deliberation is no longer as relevant. Strategy now needs to be much more iterative and flexible because the dynamics of various industries and markets are changing so fast. Executives need to develop answers with much less data, be much faster, and be prepared to experiment and shift as the situation warrants."

Steve Watson, Stanton Chase: "Being a 'good athlete'—a talented C-suite executive who showed success in other industries, with the assumption that the strengths were transitional to any industry. Today, companies want 'position players'—those who are familiar with the specific industry, channels, customers, trends, technologies and so on. That's important now due to the speed of change and global markets. A candidate needs to really understand the details of the business. There is little, if any, time for training."

Jeff Christian, Jeff Christian & Co.: "Work/life balance. That's not something CEOs or boards care about at this time of dire need for revenue and profits. The day of the soft, caring, concerned C-suite executive is long gone; the tough, demanding, show-me-the-results executive has returned."

Charley Polachi, Polachi & Co.: "Being a member of the right alumni association, country club, or political persuasion. What counts for more today? Getting results for shareholders, maximizing value using minimal resources, vision, and international skills." —J.B.

Put simply, Stevenson says, some get the change and some don't. "And it will be the ones who get it that are in demand," she says.

Even more important, says Watson, the positive impact of the changes is already being felt in corporate America. "Contrary to what Wall Street thinks or the stock market is doing," he says, "companies are reporting extraordinary profits today and have huge amounts of cash that they never had before. Companies are cutting debt and cleaning up their balance sheets. And all of that is coming from this shift to the performance-based, hands-on, get-into-the-details-of-the-business shift that we're seeing."

The real message for anyone who hasn't gotten it yet, Ashkenas says, is that "these last few years should be taken as a wake-up call to get back to very basic management principles, which are focus, focus, focus on the fundamentals of the business."

Anyone who doesn't adhere to that mantra, he says and other observers agree, will become extinct—whether in the job market or, in your window office, hunkered down and hiding out. ■

> "Today, it's expected that every C-suite executive can answer questions about the details of the enterprise and understand what's going on with R&D and sales and customers.

SURVIVAL OF THE FITTEST: THREE EXECUTIVES' STORIES

In February 2009, just as the Great Recession gathered maximum force, Amy Adams joined Kohler Co. as VP of engineering after eighteen years at automotive supplier Delphi. During the interview process, she encountered a new world of expectations that took her by surprise.

"There was a very strong overriding focus on numbers and results," says Adams, who was recruited by Stanton Chase. "The interview process was oriented not just toward an anecdotal understanding of what you've done in the past and what you're capable of, but definitely toward an effort on the part of the company to make it clear upfront that their corporate environment was one of high expectations and results that could be easily tracked with metrics that could be simply understood."

Her various interviewers laid out specific expectations of "very strong growth and very strong financial performance," Adams says. "And as I went through the interviews, it was pointedly made clear to me that you have to show specific numeric results. Not just make progress—hit very specific targets. It was emphasized much more than I would have expected."

And, she said, she had no forewarning of the seismic shift in the way C-suite talent was being evaluated and grilled. But she also learned a lesson about the harsh new landscape that would emerge. And that includes, as experts have noted, a prove-yourself period that requires successful completion before a full compensation package kicks in.

Last May, Jim Fanning joined Dallas-based tile manufacturer Daltile as senior VP of marketing. He concurs with Adams' assessment of the new climate of C-suite recruitment. "People generally want to understand the results you've delivered and how you've delivered them," says Fanning, who came from Overhead Door Corp. and was also recruited by Stanton Chase. "Recruiters and boards are doing a lot more research and back-channel work to make sure your actual track record lines up with the stories you're telling."

As a result, he says, the process takes longer now. "And honesty and integrity are more important than ever in terms of how you get your work done. That's especially true now at the top levels of a company."

Mark Bartholomay, who moved to the Hurricane Grill & Wings restaurant chain last January after a three-year stint as chief operating officer and interim CEO at Kona Grill, has also experienced heightened expectations and accountability.

"There's no doubt that everyone in the C-suite is under more pressure," Bartholomay says. "In terms of performance, it used to be that if you made your budget, you were fine. But because of what has happened with boards as a result of the recession, there's a much more comprehensive review of C-suite people than there used to be." That's true not only before you get the new job, he says—it's true from the day you start.

"And it's not just about making budgets anymore," he says. "It's also about the product-development schedule or human-capital development. It's about the public persona of the company. And all of us are held accountable now to those standards."

More than two years after joining Kohler, Adams is still assimilating the long-term impact of the new focus on performance. "I have to be much more involved with the tactical piece of the business," she says. "In this kind of role, I would have expected more of my day to be spent on long-term strategic thinking. But in order to make it happen and effect immediate change in the organization, you have to have a focused, execution-based platform."

If you can't adapt, you won't last long, Adams, Fanning, and Bartholomay agree. "The triggers are being pulled a little quicker on C-suite people because the expectations are higher," Bartholomay says. "And the patience level of boards is a little shorter."

Smart, aware C-suite executives have awakened to smell the roses, Bartholomay says. But a surprising number have not. "There are some, frankly, that are entrenched in their way of thinking and doing things," he says. "They don't want to change." His message to them: It's not just your job that's on the line. It's the future of the U.S. economy in an ever more competitive world.

His advice to C-suite slackers: Accept the new results-based reality or suffer the consequences. "The real message is that the more your results start to diverge from industry benchmarks and historical norms, the more pressure is going to be put on you," he says. "And rightly so." —J.B.

BY MATTHEW BUDMAN

From Like to LOVE

"VERY GOOD" ISN'T GOOD ENOUGH ANYMORE—YOUR PRODUCT NEEDS SOMETHING EXTRA.

Portrait by Bachrach Photography

IN SECTOR AFTER SECTOR, THERE'S A PRODUCT OR SERVICE OR COMPANY THAT'S FAR AHEAD OF THE PACK, one that sucks up all the media oxygen and customer affection, one that business authors cite ad nauseam as a success story. But at first glance, it's often hard to see why, at least early on. There doesn't seem to be much daylight between Amazon's Kindle and the Sony Reader, between Nespresso and Illy, between Facebook and MySpace, between the Toyota Prius and the Honda Civic Hybrid, between Zipcar and Hertz on Demand.

So what makes the difference? Why is Pret a Manger booming while its fellow U.K. sandwich shop Eat struggles? How have Bloomberg and Tetra Pak and Teach for America managed to inspire such devotion? According to Oliver Wyman management guru Adrian Slywotzky, it's their efforts to see from the customer's perspective rather than the creator's. The ultimate result: "magnetic" products with demand-side appeal.

In *Demand: Creating What People Love Before They Know They Want It* (Crown Business), Slywotzky, writing with Karl Weber, argues that to make products magnetic, companies must painstakingly root out every hassle that gets in customers' way and strive to understand exactly what triggers their interest and attention. "One of the most valuable lessons to be learned from talking to customers," he writes, "is just how much our buying decisions are ruled by inertia, skepticism, sloth, habit, and indifference." Tapping into those—building products and services and companies that generate actual customer demand—is a tall order. But it can be done.

Slywotzky spoke at The Conference Board's New York offices and from his Boston office at Oliver Wyman.

YOU DISCUSS THE IMPORTANCE OF EMOTIONAL ENGAGEMENT IN DEVELOPING SUCCESSFUL PRODUCTS, AND YOU TELL ORIGIN STORIES OF SOME PRODUCTS AND SERVICES, AND THE CREATORS DO SOUND EMOTIONALLY ENGAGED. BUT ISN'T THAT TRUE OF JUST ABOUT *EVERY* PRODUCT ORIGIN STORY? IF YOU TALKED TO THE PEOPLE WHO CAME UP WITH THE SONY READER OR THE CIVIC HYBRID OR MYSPACE, WOULDN'T THEY HAVE SIMILAR STORIES?

No—not in the way that I'm talking about. For the Sony Reader, there was great engagement from an engineer's perspective: *I want to make this great product that will make it easy for people to read as well on an electronic screen as they can read on paper.* What the engineers weren't thinking about is the other 90 percent of the equation. For this product to really do that job, what kind of an assortment of books needs to be available? How easy does it have to be to get a book? Is there any informational context that I need to provide to the reader to solve that? It's an important distinction. The question is how well they understood the customers who would use it and what they would use it for and what it would need to be able to do to do the job that the customer needed to have done.

So with these second-tier products, there may be great engagement of the engineer and the creator—but from the point of view of the engineer or the creator, not the point of view of the customer. That's very different from Julian Metcalfe saying, "I hated those dreadful sandwiches in London" and creating Pret a Manger. It's very different from Robin Chase saying, "It's crazy to pay tens of thousands for a car that you use for an hour and a half a day" and starting Zipcar. It's very different from Steve Jobs saying, "Why do we all hate our cell phones?" and coming up with the iPhone. For magnetic products, the engagement is from the user's perspective rather than from the producer's.

DOESN'T EVERYONE AT LEAST TRY TO KEEP THE END USER IN MIND?

Fundamentally, we're all supply-side thinkers—*my* product, *my* assets, *my* skills, *my* revenue—and we need to shift to the demand side, the customer side. It's a terribly difficult transition. That's the trick that these leaders and their teams were able to pull off. Richard Brown, the CEO of Eurostar, said to me, "It's my habit to talk to people face to face, and I often don't like what I hear, and I want to dismiss it, but I check myself, because that's the customer telling me what they experience. And I have to go investigate and find out what the problem is and how I can fix it." It's a paradox, because we're all customers half the time, and our families are customers 90 percent of the time, so we live in that world a lot. But the minute we step into our supply-side producer shoes, we forget.

These people in the book live on the demand side of the world. Speight Jenkins, who runs the Seattle Opera, works like a demon. It's 10 o'clock at night, after a very long opera, and what does he do? He gets into the auditorium with three hundred people who just spent three hours listening, for a Q&A that will go for forty-five minutes. I said, "Speight, how can you do this?" And he said, "This is priceless—this is where I find out whether we're doing a good job or not, and what's really important to people, and what do I need to do differently in the future." That's demand-side thinking. And it's a hell of an attitude—*10 o'clock, we're all tired, let's talk opera*. I don't know whether I'd have the stamina to do that. And he's 74.

IS THAT WHAT IT TAKES? IN YOUR CONCLUSION, YOU EXPLAIN THAT YOU LOOKED FOR A "FORMULA FOR DEMAND" AND DIDN'T FIND ONE. THE COMMON FACTOR IN ALL THESE "MAGNETIC" PRODUCTS IS HOW THE COMPANIES ADDRESS THE HASSLES THAT CONSUMERS FACE. IT'S ALMOST AS THOUGH DEMAND CREATION WERE A PROCESS AND ALL THESE PRODUCTS ONLY BY-PRODUCTS.

Very, very true. It's a process that literally starts at the other end. Usually, we begin with our assets, our products, our factories, and at the end there is the customer. This is a process where you rotate 180 degrees and start with the messy and emotional world of the customer. That means always thinking: I've got a very good product—how do I make it better? It may be as exhausting as sitting down with three hundred operagoers at 10 p.m. It's having a continuous conversation with customers to keep making things better.

A FOCUS GROUP CAN GIVE SOME CLUES, BUT YOU HAVE TO TALK TO THE INDIVIDUAL CUSTOMERS, NOT ONCE BUT TWO OR THREE TIMES.

WHAT'S WRONG WITH GOOD OLD-FASHIONED SURVEYS?

The nuance that you need to understand you absolutely cannot get from a customer survey. You can't even get it from a focus group. A focus group can give some clues, but you have to talk to the individual customers, not once but two or three times. When you go through that process, you uncover a spectrum of things that are irritating, annoying, silly, time-wasting, unnecessary.

You're constantly looking for three things: What are the emotional hot spots; what really drives me crazy? What are the economic hotspots—the little things that, if I could fix them, would make the product more economical? And is there some place in which the customer is not expecting something but I can surprise and delight them?

IT'S A PAINSTAKING PROCESS. WHEN DISCUSSING CAREMORE AND THE IPOD AND TEACH FOR AMERICA AND OTHER EXAMPLES, YOU REMARK THAT "THEY ALMOST NEVER SUCCEED ON THE FIRST TRY." WHY IS THAT?

Often, there's just something missing. We all think of the iPod as an instantaneous success, but it wasn't. A little bit like the Sony Reader, it was incomplete. Yes, it was beautifully designed; yes, I could listen to my CDs on it; but if this thing could let me buy the songs that I wanted, it would be *fantastic*. When Apple launched the iTunes music store, then the iPod became complete, and sales rocketed. If Sony had invested as much to build a great online bookstore as it did to build the Reader, that product would have taken off as well.

YOU TALK ABOUT "THE CURSE OF THE INCOMPLETE PRODUCT" AND ARGUE THAT EVERYTHING HAS TO BE PERFECTLY IN PLACE FOR A PRODUCT TO CREATE DEMAND—NOT 90 PERCENT BUT 100 PERCENT. ISN'T THAT TOO MUCH TO ASK OR EXPECT, THAT A COMPANY WILL ANTICIPATE EVERY CUSTOMER NEED AND ISSUE BEFOREHAND?

It is a lot to expect, and it's impossible to do from a supply-side point of view. You need to divide any given product into the device and the ecosystem that supports it, whether that ecosystem is books or applications or music. For a simple cellphone, the device itself is very important to the consumer; the ecosystem behind it is not that significant. But for a smartphone, the device is important, for sure, but what I can get on the device—the browsing access, the books, the music, the content—is a much more important proportion of the equation. And when you get to a tablet, yes, the device and the speed and the elegance are important, but

It's what we don't see behind the device that can make it or break it.

the ecosystem is *hugely* important. You're going to give me a tablet, but I can't watch Netflix or Hulu? If you think about that progression from cellphone to smartphone to tablet, the relative importance of the rest of the equation beyond the device has gotten much greater.

IS THAT WHERE BLACKBERRY—A PRODUCT THAT WAS ONCE MAGNETIC—EVENTUALLY FELL SHORT?

It's a classic example. In 2000 or 2001, you would be at a meeting of a board of directors or a senior management team, and people would be like children, jumping out of the meeting and looking at their BlackBerries. People really did love that product, and many still do today. But what was magnetic in 2003 ain't anymore. The company didn't keep up with the iPhone and Android—not so much the products as the ecosystem behind them.

THE ECOSYSTEM IS ONLY PART OF WHAT YOU CALL *BACKSTORY*, RIGHT?

It's what we don't see behind the device that can make it or break it. There are three components that make a product work that the customer may never see or think about. There's infrastructure—both external, like the Internet or the post office, and internal, like processing centers or plants.

Then there's the ecosystem: Have we done the one hundred or two hundred deals to make the content and applications—the stuff that my customers want—available on day one, when we launch? When you look at the stunning imbalance in the current tablet market, that's what's missing for the second, third, fourth, fifth entrants: The device may be fast and sophisticated, with a good screen, but can I watch movies on it? Can I get my magazines on it, in the right format? Can I get my books on it?

And number three: As the supplier, have I created mechanisms that allow others to participate in my demand process? Have I created a mechanism—one that's both attractive and useful—where customers can write reviews of movies, or apps developers can participate?

SOME OF THIS PROCESS REQUIRES PUTTING CONTROL IN OTHERS' HANDS, AND MOST OF YOUR EXAMPLES FEATURE PEOPLE WITH VERY STRONG PERSONALITIES AND VERY CLEAR VISION. ARE THEY ABLE TO LET GO?

To their credit, even the ones who appear arrogant are humble enough to acknowledge the unknowability of demand, which is why they do the experimentation. The apparent arrogance and confidence conceals the fact that they really don't know in advance what's going to work. They're always trying to organize tests, experiments, anything that will help them get closer to not just asking what customers want but seeing how they react to different alternatives.

My favorite myth is that Steve Jobs has it all in his head. Jobs is very smart—smarter than most of us—and he knows that demand is unknowable. That's why he has had his teams make different prototypes that compete against each other till they get down to three, then down to one, and finally they have a hell of a product. Even then, it often takes multiple tries. The first version of the MacBook Air did poorly, the second version did a little bit better, and the third version did much, much better. During those iterations, Apple and the supply chain learned how to make a great device that was radically thinner and lighter, with a long-lasting battery.

The critical difference is that the day that Apple launches a product, they immediately say, "How quickly can we make it better?" And this is not just Apple—this is Toyota on the Prius, GM on OnStar, Dyson on its vacuum cleaner. In many companies, the engineers kill themselves working on a product and then hand it over to marketing and say, Good luck, God bless, we want to work on something new. That's exactly the wrong thing to do.

DO MOST COMPANIES REALLY GET TO "VERY GOOD" AND STOP? IT SEEMS AS THOUGH EVERYONE CONSTANTLY UPDATES PRODUCTS, TRYING TO IMPROVE THEM.

Many do, but some do much more aggressively than others. At B2B companies like Tetra Pak and Ecolab, they keep improving the product based on understanding how it's used; they invest enormously in creating and developing relationships. They say

...it took Netflix two years to realize that a one-day turnaround was the key.

to their customer: I need to learn more about your business so that my packaging systems or water-treatment systems not only do their job functionally but save you money or shorten your cycle times or help you sell more of your product.

If you have a network of relationships up and down the buying company, from the purchasing agent to the engineer to the plant manager to the CFO to the CEO, that's the functional equivalent of people talking to customers in the B2C world. You can learn whether you're really doing the job that your customers need to have done, or whether there are other things that you need to add—maybe technical, maybe service, maybe information, maybe data.

YOU CHARACTERIZE MOST COMPANIES AS "REMARKABLY IMMUNE TO THE SIGNALS THAT CUSTOMER BEHAVIOR IS TRYING TO SEND US."

Right. And when we send scouts out into the market and they come back with the wrong data, we shoot them. That's human nature. The root of it is supply-side thinking: I'm very good at what I do; I know how to do it; I know how to do it efficiently. A great device maker may stop there, without adding the capabilities that customers would find magnetic—the capabilities that might require negotiations with newspapers, magazines, music publishers, film distributors, book publishers. The device may be brilliant, but the customer says, "OK, it's brilliant—what am I going to do with it? Can I watch Hulu? Can I watch Netflix?"

SPEAKING OF NETFLIX: IN ONE OF YOUR SECTIONS ON THE COMPANY, YOU CHARACTERIZE ITS POLICY AS, "DON'T DO ANYTHING IRREVOCABLE UNTIL YOU'VE TESTED IT, RUN THE NUMBERS, TESTED IT, AND THEN TESTED IT AGAIN." IN BETWEEN YOUR WRITING THE BOOK AND PUBLISHING IT, NETFLIX DRAMATICALLY INCREASED ITS PRICING STRUCTURE AND WAS HIT WITH AN AVALANCHE OF HOSTILE PRESS AND CUSTOMER RESPONSE. THIS ONE TIME, DID THEY FAIL TO TEST PROPERLY?

I honestly don't know. Its communication could have been handled differently. But a majority of people say Netflix has been providing way more value than they've been paying for, so maybe they'll see the increase as justified; if Netflix keeps on the track that it's been on—making things more convenient and its selection more broad—it should be fine. In terms of what the customer perception of value is for the Netflix customer, the company may have figured it better than we as outsiders have; we probably will know that in the next nine to twelve months or so.

IS THERE ANYTHING THAT YOU WOULD HAVE REVISED IN DISCUSSING NETFLIX, KNOWING THAT THIS WAS COMING?

No, because most of the story precedes that—for instance, talking about how getting DVDs to people in two days instead of five days made the difference. And maybe Netflix did get it right; maybe they did know how customers would react. There are statistical ways to test it: You can formulate four or five different combinations of customer offerings, with different titles, different price points, different terms, and different movies, and see what the response rate would be; and then you can test the limits of how angry someone would have to be to actually unsubscribe.

AS A CUSTOMER, I'M ANNOYED BUT I WON'T LEAVE, AND I'M SURE THAT'S HOW MOST PEOPLE WILL REACT. NETFLIX WILL PROBABLY MAKE 30 OR 40 PERCENT MORE PER SUBSCRIBER AND HAVE ONLY 5 OR 10 PERCENT ATTRITION. THEY'LL COME OUT AHEAD—EXCEPT THAT,

AS YOU DISCUSS THROUGHOUT *DEMAND*, NETFLIX HAS BEEN A PRODUCT THAT PEOPLE *LOVE*, LIKE IPHONES AND ZIPCAR. MIGHT THE RATE HIKE TURN NETFLIX INTO A SERVICE THAT PEOPLE GRUDGINGLY USE?

Perhaps. I would be very surprised if they did not use that incremental income to acquire new titles for streaming. If the number, say, doubled in six months, I strongly suspect customer-satisfaction rates would skyrocket. If six months from now we find that there was a lot of negative feeling but no massive defections, then I would scratch my head.

Of course, as customers, we're unreasonable: Why can't I stream everything? Calm down, Adrian, these things aren't free—there are things called studios in Hollywood, and they own the rights to the films.

"WE GAVE YOU *MAD MEN* ON DEMAND—ISN'T THAT ENOUGH FOR NOW?"

Exactly! If six months from now we find out that the number of streaming titles has more than doubled, we can have a great conversation.

IF THAT HAPPENS, WE WON'T END UP TALKING. I'LL BE IN FRONT OF THE TV.

Me too.

BUT EVEN IF NETFLIX'S SELECTION IMPROVES, MAYBE THE SHIFT CREATES AN OPENING FOR A COMPETITOR. YOUR RESEARCH FOUND THAT SOMETIMES THE DIFFERENCE BETWEEN SUCCESS AND FAILURE IS TINY. ARE MANY PRODUCTS JUST ONE OR TWO IMPROVEMENTS AWAY FROM BEING MAGNETIC?

Most of the time, it is something fundamental; if you're not good, discovering the triggers won't make very much of a difference. But the poignant thing is that there are products that are just one or two tiny steps away—but you don't know what those steps are. In Zipcar's case, it was the difference between fifteen minutes and five minutes. I was talking with a customer this afternoon, and he said, "We were driving to Washington and rented a Zipcar—that was the smartest way to go." But he also said, "The Zipcar lot is five minutes from my house; if I had to walk fifteen minutes to get one, I wouldn't do it." That's why, even when you have a very good product, you need to keep searching for those little things—like the five minutes—that turn people on.

One reason why great products don't always succeed right away is because the maker hasn't found the trigger that draws in the customer. It took Zipcar three years to find the five-minute trigger; it took Nespresso four years to nail direct sales to customers; it took Netflix two years to realize that a one-day turnaround was the key.

ONCE THE TRIGGER BECOMES OBVIOUS, WHY DON'T COMPETITORS RUSH IN TO COPY THE IDEA? OBVIOUSLY, SOME MAGNETIC PRODUCTS ARE *SUI GENERIS*—FOR THE KINDLE, NO ONE BUT AMAZON HAS ACCESS TO THAT LIBRARY. BUT WHY, FOR INSTANCE, DON'T OTHER SUPERMARKET CHAINS EMULATE WEGMANS? THERE ARE ONLY SEVENTY-NINE WEGMANS STORES, AND IT SEEMS AS THOUGH COMPETITORS COULD JUST STEAL THAT MODEL.

There's a lot more to Wegmans than the model. When Wegmans opens a new store, they spend tons of time preparing for it, and there's a six-month period where there are veterans who are brought from other parts of the organization who are good butchers, who know cheese, who know greengrocery, who know gourmet foods, who know canned foods, and then people who know what the culture means and the training that's required to do it. It is a long, laborious process to make sure that when that Wegmans opens, the people in it have the training, the information, and the attitude, and that the approach to their customers represents the essence of what Wegmans is.

CareMore does precisely the same thing when they're opening a new clinic for seniors. They'll tell you that the single hardest thing to replicate is the culture—to make sure that the culture in the new clinic is the same as the culture that made the company successful. So they spend an inordinate amount of time, over six months, with their veteran physicians and nurses and medical assistants working side by side with the people in the new clinic to make absolutely sure that the new people get it and apply it to the customer. One new company we found—I honestly don't remember the name—tried to copy CareMore and couldn't, and what I just described was the piece that's missing.

IT'S HARD TO ENVISION ANYONE ELSE INVESTING THAT MUCH TIME AND MONEY.

Wegmans' margins are very good; CareMore's margins are very good. If they need to make that kind of extraordinary investment, they can. And they need to: Take out the Wegmans culture, and I'm not sure what you have; take out the CareMore culture of putting the patient first, and I'm not sure what you have. In the end, the magnetic quality, from the customer's perspective, pays off. Data shows that customers who love their supermarkets spend 40 percent more. And when you look at the data on CareMore, they invest X in patients—which is way more than anybody invests—but they save 10X because people don't go to the hospital nine months later or get readmitted to the hospital ten months later.

And the discipline and patience are extraordinary: In anybody else's hands, you would have had two or three hundred Wegmans by now—but they wouldn't be real Wegmans. In anybody else's hands, you would have eighty CareMore clinics instead of twenty-six—but they wouldn't be real CareMore clinics. ■

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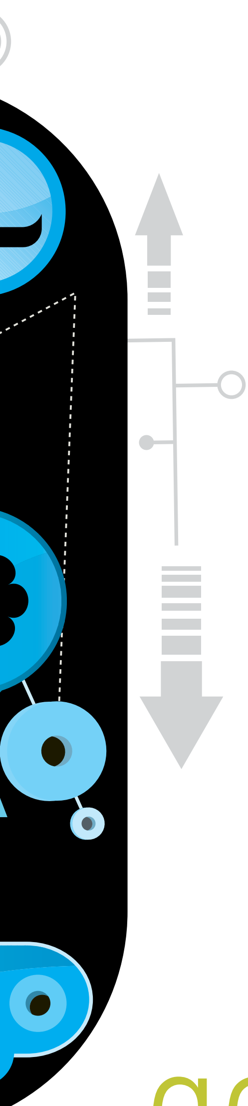


getting to new and IMPROVED

THE SCIENCE—YES, SCIENCE—OF INNOVATION.

By Michael E. Raynor

BUT IS IT ART?

IT'S A QUESTION THAT HAS BEEN POSED OF MANY PUTATIVE MASTERPIECES, from the great to the ghastly, and it haunts us because it resists an objective, once-and-for-all resolution. In a twist on an age-old aphorism, one culture's art is another's graffiti.

As a result, those who would create art are often best served by listening to their own muses. Certainly great artists talk about their creative processes in this way. Mozart claimed, "I paid no attention whatever to anyone's praise or blame. I simply followed my own feelings." Similarly, Van Gogh felt that "paintings have a life of their own that derives from the soul of the painter." In our own time, when the chaotic swirls of a Pollock and the stark geometry of a Rothko are each landmark works, it would appear that attempts to follow what might pass as rules of artistic expression are far likelier to end up hanging over rumpus-room couches than in the Rijksmuseum or the MoMA.

At the other end of the spectrum, it's unusual for anyone to ask, "But is it science?" Whether or not the elegance and parsimony of $E=mc^2$ captures something true about the physical universe is not something we need repeatedly reassess. We might not actually know the answer to particular questions, but thanks to the scientific method, we know how to find the answer and know when we have an answer. There are rules to be followed not for their own sake but because they work, and deviations from them inevitably lead to failure.

Art and science, then, appear to be what the late paleontologist Stephen Jay Gould referred to as "non-overlapping magisteria"—fundamentally different domains subject to different rules of evidence and inference. They need not stand in opposition to

each other and in fact can be seen as highly complementary, insofar as each speaks to deep and universal human needs: our never-ending quest for meaning and our insatiable curiosity.

When some people say that "innovation is an art," they are appealing to this notion of what it means for something to be an art: It is fundamentally inaccessible to scientific methods of inquiry or objective evaluation. Certainly the commercial success of an innovation is relatively unambiguous, but determining whether or not something is an innovation, or can be predicted with any confidence to be successful, is a mug's game.

This is certainly the impression you get from the mythology that has come to surround many of the most successful innovators. Steve Jobs, for example, is credited with advising would-be innovators to not "let the noise of other opinions drown out your own inner voice . . . and have the courage to follow your heart and intuition." For all the voice-of-the-customer methods and the sophistication of modern market research, Henry Ford's observation that "if I had listened to my customers, I would have built a faster horse" still rings in our ears. Many derided and ridiculed ideas have come to define entire markets—to wit, Fred Smith's B-school professor concluding that Smith's project describing an overnight delivery service was "interesting and well-formed, but in order to earn better than a 'C,' the idea must be feasible."

Consider, for example, medicine. There was a time that we referred to medicine as an art: you see vestiges of this in strip malls across America with a preponderance of doctors', dentists', and optometrists' offices advertised as "Medical Arts Buildings." This harkens back to medieval times, when our grip on what caused what and why was so rudimentary that whether a medical intervention would cure or kill a patient was anyone's guess.

We've advanced enough that in most cases we can be pretty confident that competent medical attention will at least do no harm. A test for strep throat, for instance, is wholly unambiguous: We know what the symptoms are, we know how to test for it, we know how to interpret the test's results, and we know what to do based on those results. It's essentially an automated procedure: highly repeatable, predictable, and effective. And boring—no one ever made a drama about testing for strep. This is "precision" medicine.

But in many areas of medicine, our ability to improve a patient's condition remains limited and unpredictable. With poorly understood disease states, it can take highly trained teams of specialists informed by years of experience and leaps of imagination to come to a viable diagnosis and a plausible treatment. The drama behind this sort of sleuthing is what makes TV shows such as *House* so popular. This is "intuitive" medicine, and it commands the attention of brilliant medical minds thanks to, ironically, our collective ignorance of how to achieve the desired outcomes.

In the middle lies "empirical" medicine—an intermediate state in which, although highly reliable predictions elude us, we understand enough to intelligently play the odds. For example, we might say, "People with this sort of cancer with your history and etiology have a 75 percent, five-year remission rate." That is not as predictable as we might like, but it is better than the sort of one-off, intuition-based diagnoses on which we would otherwise have to rely.

> Disruptive innovations begin life as inferior solutions to problems experienced by either small or economically unattractive market segments.

The inference we have collectively drawn is that the more systematic approaches to innovation are unlikely to put us on a path to great innovation.

A STEP IN THE RIGHT DIRECTION

But what if innovation is an art form only metaphorically? That is, rather than being qualitatively different from, say, Six Sigma and Total Quality Management—management domains that have successfully applied the scientific method to work—innovation is simply less well-developed? What if our understanding of innovation is better placed on a continuum?

So where does innovation lie on this continuum from intuitive to empirical to precision-based practice? If you were to skim much of the popular work on innovation, you'd be forgiven for concluding that we are already in the precision stage. The most common consultant approach: name several successful innovations and then posit a framework that accounts for those successes. By applying this framework prospectively to your own innovation efforts, you will achieve similar results.

Of course, if you're a practitioner of innovation, you're likely hesitant to draw such a conclusion. To you, I'll bet, innovation is, if anything, firmly in the intuitive stage.

PICKING MORE WINNERS

This disconnect between the prescriptions of theory and the realities of practice is born of a confusion between explanatory and predictive power. When researchers appear to have explained why a given innovation succeeded or failed, it remains to be seen whether that same framework can be used effectively to predict future outcomes. And the only way to determine whether or not a theory of innovation has predictive power is to test it directly.

Hence a two-year research effort involving Intel Corp., Deloitte Consulting LLP, researchers at the Harvard Business School, and more than five hundred MBA students from three leading B-schools.

Intel made available to the research team the business plans for forty-eight new businesses that received early-stage funding: from less than $500,000 to as high as $2 million. For each of these businesses, we had anywhere from three to ten years of post-funding survival data—that is, we knew whether each business was still a going concern. Intel's portfolio had a long-run survival rate of just over 10 percent, a result comparable to most angel-investor's portfolios.

Each of these business plans was written up as a two-page disguised case study that outlined the basic technology, the target market, the management team, the strategy, and relevant financial projections. We then gave six randomly selected case studies to MBA students from MIT, Harvard, and the University of Western Ontario and, without revealing the outcomes, asked the students to predict which of the businesses they expected to survive. The portfolio that the students, as a population, approved was statistically similar to what you'd expect to see by chance alone—about the same as the underlying success rate of the portfolio itself.

We then taught the students about Disruption theory, a way of thinking about innovation developed by Clayton Christensen in the early 1990s. The theory has been described

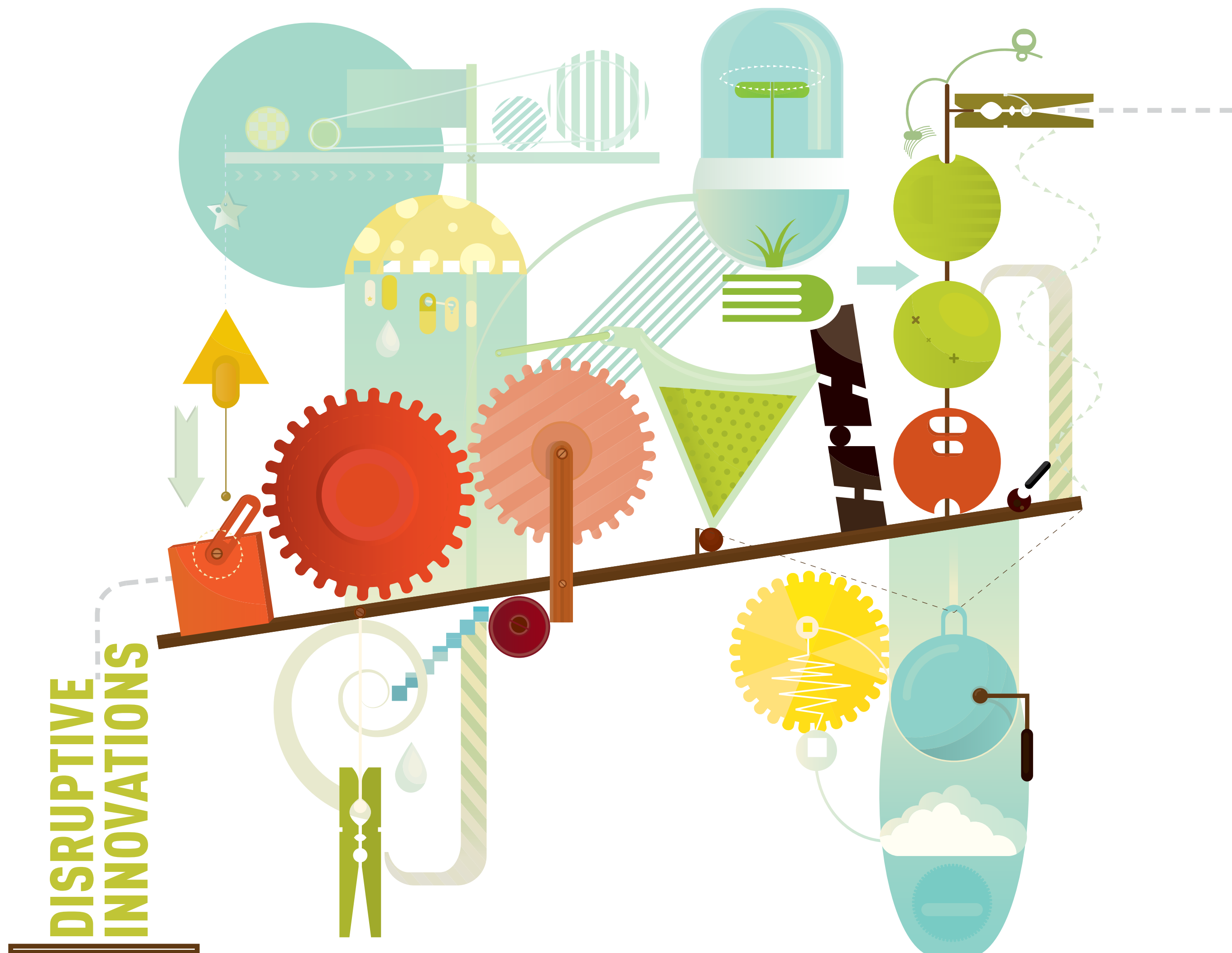
at length in a number of books (e.g., *The Innovator's Dilemma* by Christensen and *The Innovator's Solution* by Christensen and me), but a brief synopsis is in order.

Disruptive innovations begin life as inferior solutions to problems experienced by either small or economically unattractive market segments. For example, the personal computer started out as a toy targeted at hobbyists, not a serious solution to the IT needs of the large and growing corporate market. Consequently, these early-stage solutions are of little commercial interest to dominant incumbents, and the entrants to whom these innovations are attractive must develop entirely new business models—methods of production, distribution, and so on—to bring them to market.

However, subsequent improvements allow once-rudimentary solutions to address the most important business issues of the mainstream market's most lucrative customers. The erstwhile incumbents then find themselves flat-footed, unable to respond quickly or effectively to the now-finely honed strategies and capabilities of once-scrappy former start-ups.

It is in this way that the PC displaced the minicomputer; that low-cost, point-to-point airlines have given traditional hub-and-spoke airlines fits; and that online and mail-order video rentals have bankrupted former market leaders dependent on bricks-and-mortar distribution.

The implications of Disruption are stark and easily stated: Incumbent organizations that introduce innovations giving their existing customers more of what they are already



paying for—that is, *sustaining* innovations—will succeed. Entrants focused on a sustaining innovation—that is, entrants hoping to take market share by introducing a better mousetrap—will fail. Disruption innovations have the opposite profile: Incumbents trying to disrupt themselves will fail, while entrants with disruptions will succeed.

With instruction in Disruption theory under their belt—in sometimes as compact a form as a single one-hour lecture—students were given a second set of six different randomly chosen case studies and again asked to make survival predictions. The result: improvements in predictive accuracy of up to 50 percent. The portfolio of approved businesses generated by the students as a population went from just over 10 percent to as high as 15 percent. That is still a long way from perfect, to be sure, but it is a statistically significant—and quite likely financially significant—improvement in picking winners at the earliest stage of their development.

These findings suggest that by applying Disruption theory to the evaluation of innovations, we can move beyond basing our assessments on intuition and instead begin to rely on principles appropriate to the empirical stage of a discipline's evolution. As in much of medicine, a great deal still eludes us, but, thankfully, we have evidence that—with Disruption at least—we can make a more informed and data-based assessment of the odds.

MANAGING EMPIRICAL INNOVATION

When we have approaches to innovation that are grounded in sufficient data and have demonstrated appreciable predictive power, we can take full advantage of our deeper levels of understanding. In other words, we can be scientific about a process that too often resists such thinking. Consider the three-phase model evident in an in-process innovation at Johnson & Johnson: the development and launch of the Sedasys automated sedation system.

Focus. With models such as Disruption that have an empirical foundation for claims of material predictive success, we can begin our quest for successful innovations with a focus on those markets and technologies that are ripe for Disruption.

In the case of J&J, this took the form of identifying a non-consuming market for a specific anesthetic, propofol. Highly effective and prized for its relative lack of side effects compared to other combinations of sedative and analgesics, propofol is nevertheless expensive to administer because it requires an anesthesiologist or other anesthesia professional (AP) to administer the drug and monitor its effects. As a result, there were a large number of surgical procedures that could be performed more effectively and efficiently if propofol were administered by a device rather than a skilled professional.

In more general terms, because Disruptions necessarily take root in unattractive markets, the quest for innovation can begin by looking not where the money is (the essence of good management) but, rather, where the money *isn't* (the essence of good Disruption). Consequently, rather than encourage a wide range of solutions to a host of problems—typically the result of an emphasis on variation—innovation processes can begin by focusing people's creative efforts on carefully defined opportunities.

> The quest for innovation can begin by looking not where the money is but, rather, where the money isn't.

Shape. Once one has focused on an especially promising area, it is possible to deliberately shape ideas so that they align more precisely with the prescriptions of that theory, thereby increasing one's likelihood of eventual success.

J&J's experience while developing Sedasys captures this dynamic in sharp relief. As the company was developing its initial prototypes, its intended target market consisted of surgeons doing upper and lower gastrointestinal diagnostic procedures, e.g., colonoscopies. In the late 1990s and early 2000s, when the technology was in its earliest stages, propofol was essentially unknown in these applications.

By the mid-2000s, however, as J&J was readying Sedasys for clinical trials, many gastroenterologists found propofol valuable enough to warrant the additional cost of an AP. As a result, almost 40 percent of Sedasys' target market had been colonized by an incumbent technology (i.e., the AP), making Sedasys an entrant with a much more nearly sustaining technology: Its claim was that it was "just as good" for certain applications but less expensive.

A *selection*-based approach to this problem would have mandated different Sedasys prototypes for different target markets—one intended to displace APs, the other targeting the 60 percent of GI diagnostic procedures still not using a propofol/AP combination. Such an approach would have been prohibitively expensive, and the team needed to make a choice.

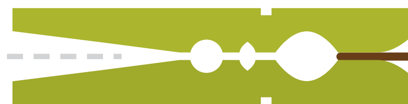
This is where a validated theory is especially helpful, for it enables fact-based decisions in the face of ambiguous data. Since the J&J team was deliberately applying Disruption theory, they were able to see their way through the fog of uncertainty and shape the evolution of the device in ways that made Sedasys as Disruptive as they felt it could be. By dedicating their efforts to optimizing Sedasys for those gastroenterologists not yet using propofol—and eschewing competing for the large and growing market that had already adopted AP-administered propofol—the team avoided the expense, delay, and potential marketplace confusion of seeking to apply selection pressures to nascent concepts while at the same time making a choice with a demonstrably high probability of success.

Persist. The Sedasys device has been over a decade in the making. For those competing in the fast-paced world of consumer electronics—where eighteen months can be two product life cycles—this might seen an eternity, but it is hardly unusual for innovations in medical devices. And indeed, precisely because of the long time—perhaps a third of a career in an industry where advanced degrees are commonplace—a powerful, empirically supported theory is especially useful: It provides the courage required to stay the course in the face of powerful yet often transient forces for change.

Because the J&J leadership and product-development teams shared a common belief in the power of Disruption, Sedasys survived the budgetary pressures that inevitably rock any company over the course of a decade. It survived technical setbacks because the people involved knew they were working with the forces of change and not against them. Rather than seeing their innovation as a long-odds proposition that required evangelistic faith, they were instead riding a wave of Schumpeterian creative destruction. Success was never a foregone conclusion, but it is easier to stay the course when you have reason to think your insights are aligned with the same forces that propelled everything from the Ford Model T to the personal computer to marketplace dominance.

Sedasys has been approved for use in the European Union and in Canada, though the FDA has been more skeptical and has not yet approved the system for U.S. use. It remains targeted squarely at those gastroenterologists who do not yet use propofol for a specific set of diagnostic procedures primarily because of the expense of including an AP in their practices. The improvement trajectory of Sedasys, like that of so many successful Disruptions, is linked to advances in rapidly progressing fields such as electronics and pharmaceuticals. Its prospects for successful Disruption are bright.

Innovation need not be an ineffable and inscrutable domain, accessible to only the anointed or the gifted.



MANY STEPS TO GO

Many fields of empirical medicine are a long way from the kind of precision that characterizes testing for and treating strep throat. But that doesn't dilute our enthusiasm for the progress we have made so far or our willingness to take advantage of what we have learned, however meager our knowledge might seem.

Same goes for these findings on the power of Disruption theory. The improvements demonstrated in the experiments are significant and material, but they are not overwhelming. (And if they were, I'm not sure I'd be writing about it.) There is a long way to go before innovation moves even fully into the empirical stage of its progression from intuition to precision.

What lies in front of us should, however, appear that much more exciting precisely because we now know that progress is possible. Innovation need not be an ineffable and inscrutable domain, accessible to only the anointed or the gifted. Rather, it is a science, if only a fledgling one, and what we have learned so far is more than enough to begin building the kinds of processes that place innovation within the reach of us all. ■

THE JOURNEY OF IDEAS

Since I began writing the "Theory to Practice" column for TCB Review in May 2008, I've tried to use it as a sort of proving ground, an opportunity to think about various ideas or at least new ways of expressing them. After all, as E.M. Forster put it, "How can I know what I think until I see what I say?"

In the last three and a half years, and fifteen columns, I've had the chance to make preliminary excavations of all manner of concepts. Does organizational change necessarily include painful crisis (Summer 2009)? Is risk aversion a natural, if pathological, management behavior (Summer 2010)? How do science, philosophy, and faith inform managerial decision-making (Spring 2011)?

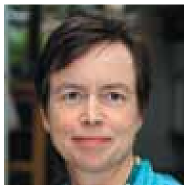
Some of these less-traveled paths were scenic but have thus far served no greater purpose: What would Socrates and Plato have to say about incentive-based management (July 2008)? Does it matter if we see our world as "changed" or merely "changing" (March 2009)? Should managers read more science fiction (May 2009)?

But others have borne fruit. My debut essay explored the merits and limitations of popular management research. These musings were a big part of what motivated the distinctive experimental approach at the core of my new book, *The Innovator's Manifesto*. The new book also benefitted from a discussion of innovation during a recession (September 2008) and an exploration of the structural differences between the investment efforts of corporations and those of venture capitalists (Winter 2011).

My current effort to understand the drivers of long-term corporate performance (watch for it in bookstores near you in February 2013—if you can still find an actual bookstore by then!) is similarly benefiting from the trial balloons I've been allowed to send up in these pages. In November 2008 I had a chance to think about the role of luck in high-performance corporations, while in Spring 2010 I asked whether corporations seek success or merely survival. I continue to ponder how specific advice must be in order to be useful (Winter 2010). Most recently, reflections on what correlated variables reveal about causal mechanisms is both tempering and emboldening the conclusions that I and my colleagues are drawing from our work (Summer 2011).

Otto von Bismarck, the "Iron Chancellor" of nineteenth-century Germany, remarked that, "Laws are like sausages: It is best not to see them being made." My hope is that ideas are quite different, and that witnessing the production process for the ideas in *The Innovator's Manifesto*, and those that will define the work to come, has been at least enjoyable and perhaps, on occasion, illuminating.

—M.E.R.



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9 TO 5 IS SO LAST CENTURY

Today's flexible work arrangements should not be mere employee perks.

SOME CEOS HAVE GLIMPSED THE FUTURE. Take Andrew Witty, 47-year-old head of pharmaceutical giant GlaxoSmithKline, who told employees early in his tenure that he has two personal rules: (1) When he is at headquarters in London, he does not go out to dinners because he wants to be home with his family. (2) When he goes home, he switches off his phone.

Witty, who often appears in GSK's west London offices in jeans and a T-shirt—or shorts and a T-shirt if he's been out running—told *Working Mother* magazine that he didn't want to look back on his career and find himself saying that he worked a lot but missed seeing his kids grow up.

He does work a lot, of course, and has a grueling travel schedule. But Witty also understands that times, and people, are changing. Last year, he told senior staff that the company needs to be more flexible. One of the six top things the company now expects of high performers is "flexible thinking," which includes reflecting on the way people work.

Witty is right to make this a priority. Plenty of employees want and expect to do things differently, and that includes having more choice and autonomy over how, when, and where they work. This goes both for people approaching the end of their working lives and for the much-hyped digital generation just starting out, as well as many employees juggling priorities mid-career.

But encouraging flexibility is not just about what workers want. Crucially, it's also about improving business performance. And surprise, surprise, the two go hand in hand. There is plenty of evidence that people are more productive when they are able to work in the ways that suit them best. The technology is available to make this to happen, and there are also big cost savings from rethinking workspace for maximum efficiency and collaboration.

What usually stands in the way of necessary changes is management resistance and organizational inertia. That's why the right leadership is vital. In researching our new book, *Future Work*, co-author Peter Thomson and I found that every successful transformation in working patterns and practices was led from the top—either by a maverick entrepreneurial founder or by a CEO who was persuaded, willingly or otherwise, by the need for radical change.

What we're talking about here is very different from conventional flexible working arrangements, which tinker around the edges but don't fundamentally change the working model. Flex policies are typically drawn up by HR departments, not the CEO or the C-suite. They are seen as benefits or perks for employees—often for specific groups of people, such as working mothers—rather than as a better way of doing business. Managers, told that they must accommodate flexible workers, often do so grudgingly because they see this as a cost, an additional burden, and a distraction from the real business of hitting financial targets. Thus, when companies end up with a mishmash of inflexible "flexible working arrangements" and little or no change to the prevailing culture of face time in which presence equals commitment, it's because they're taking the wrong approach.

True flexibility should be a strategic business initiative, with the same resources and leadership as any other. It means understanding that the way we work is changing, whether managers like it or not, and that businesses that seize the opportunities afforded by technology stand to gain the most. We call it future work, because it's the way work is heading, which includes moving from measurement by hours to measurement by output. Companies that measure the business benefits—and there are still too few that do—report a wide range of gains, including higher productivity, more innovation, cost savings, lower carbon emissions, greater discretionary effort from employees, and better succession planning.

For executives, there is a price to pay for moving into the new world of work. First, they must cede control and

THERE IS PLENTY OF EVIDENCE THAT PEOPLE ARE MORE PRODUCTIVE WHEN THEY ARE ABLE TO WORK IN THE WAYS THAT SUIT THEM BEST.

learn to trust people to achieve their objectives. As one of GSK's new global principles says, the manager defines the challenges and the team delivers the results.

Second, leaders must lose some of their traditional status. At GSK, this was symbolized by Witty's decision to move his executive team from their plush twelfth-floor suites to glass-walled offices on the ground floor, where they are visible to passersby.

Other companies have gone further and abandoned individual offices for everyone, including the CEO. This is the case at Vodafone UK's campus headquarters west of London, where meetings of six people or fewer take place in the ground-floor café area. If people try to recreate the privacy of a cube by shifting filing cabinets around their desk (perfect *Dilbert* fodder), they get a call from the CEO saying, "I suggest you don't do that." At Microsoft's Netherlands headquarters, next to Amsterdam's Schiphol Airport, there are no personal offices either. Theo Rinsema, the general manager, explains, "You find the ideal workspace depending on what you are doing." It's a very leveling approach.

But if losing the trappings of power hurts some managers, there are compensations. Witty is trying to shift GSK's culture so that instead of having fixed rules about where and when work is done, people from the top down are encouraged to set their own personal rules. The CEO arranged for all his senior managers to have iPads to encourage them to think and work more flexibly. The company has also moved to "smart working," with eight desks for every ten people, to save space and to drive home the message that remote working is fine and expected.

Such culture change can take a long time in a big company. But the impact on some people and departments can also be significant and swift, as Martin Swain, GSK's VP for global employee relations, told a recent conference organized by the U.K. charity Working Families. "I didn't understand how a person can change a culture so immediately, but it's happening," he said. One of his colleagues, for example, sets aside a day each month to read board papers at home—specifically, in bed. Swain himself leaves England's gray skies for southern California for three months of the year, where he spends a few hours a day working and the rest on vacation.

To many peers, this will seem like an enviable new take on the blurring boundaries between life and work. Executives from other big companies attending the conference were certainly impressed. To self-employed people, however, these innovations won't seem so wacky or unusual. We freelance professionals already control our working lives to a great extent. There are no rules about when we get up, get dressed, or get to work. We have to be self-driven and to find our own ways to work as efficiently and productively as possible. Some are early birds, others night owls; some are solitary, while others go mad if they don't see or chat regularly to fellow human beings. We have to meet deadlines, but it's up to us how we do the work—between 9 and 5 on a weekday or in the early hours of a Sunday morning, sitting at our "office" desk or Skyping at the top of Rockefeller Center (as I did).

Business leaders should pay heed to the divide between the self-employed and their own workers. In the future, the companies likely to attract the best people will be those that offer them the autonomy of a freelance lifestyle alongside the relative security and career opportunities of corporate employment. After all, isn't it rather odd that a lot of organizations are willing to hire freelance consultants to do a job and trust them to get it done on time and on budget, while insisting that their own staff work fixed hours in a fixed location under the watchful eyes of management? ■

PAUL B. BROWN, a former writer and editor for *BusinessWeek, Financial World, Forbes,* and *Inc.*, is co-author of, most recently, *Action Trumps Everything.*

ACCEPTABLE LOSS

Why long-term thinking may lead to unnecessarily large failures.

IT MAY SEEM LIKE A DISTANT MEMORY, but it really wasn't all that long ago that working for a large company was the safest thing in the world. You traded a reasonable day's work for a paycheck and lived happily after.

That was then, and endless "rightsizings" and layoffs are now. Today, you'd be hard-pressed to find people who haven't thought about going out on their own, hesitating, perhaps, because they see it as risky.

And yet, there's a reason why seasoned entrepreneurs don't think of themselves as risk-takers, even though everyone else does. Of course, the cliché is that they always leap before looking and bet everything on one roll of the dice. But in reality that isn't true. Successful serial entrepreneurs have developed terrific ways to limit potential losses as they start new ventures, by adhering to the basic principles of risk management: If you're going to play in a game with uncertain outcomes—such as starting something new—then you:

1) Never pay or bet more than what you can expect as a return, and

2) Never pay or bet more than you can afford to lose.

Both of these points can be summed up with the phrase *acceptable loss*, a concept in which you consider the potential downside of whatever risk you are about to take—such as starting a new company or some other venture that will likely consume a lot of your time, capital, or other assets—and put on the line no more than you find it tolerable to lose should it not turn out the way you want.

This, however, is not how most of us were taught to think about risk. In the predictable world in which we were all trained, we spend a lot of time estimating the size of the prize—the financial rewards of pursuing a particular opportunity—and optimizing a plan to achieve what those in the finance community call "the expected return." The logic is straightforward and looks something like this:

1) Analyze the prospective market and choose segments with the highest potential return.

2) Develop and optimize a plan for your product or service to achieve that return.

3) Calculate the costs in money, time, and resources of achieving your goal.

4) Then discount whatever you came up with to account for the fact that nothing is certain.

If you work at a big company, this should sound very familiar. It's a logical result of years of conditioning to "maximize shareholder wealth." While it makes enormous sense in a predictable setting, this logic is just silly in the face of the unknown, because all you end up doing is making projections based on assumptions that are ultimately contingent on guesses.

But the more uncertain the situation—and as a quick glance at each day's headlines shows, the universe seems to get more unpredictable by the moment—the more this math is foolish. Instead of focusing on expected return, or how much you could possibly make, you should refocus your attention on acceptable loss, or how much you might lose should things not turn out the way you hope. Employing the concept of acceptable loss keeps potential failures relatively small since, by definition, you never lose more than you are willing to.

For example, suppose your company is considering launching a new service. Were you to follow the typical reasoning governing risk that we have all been taught, you would do in-depth research to estimate not only the size of the market but all the risks and challenges you might face (competitors, changing market conditions, etc.). This is all useful, of course, but the more potential risks and challenges you believe you'd be up against, the more money you would seek to raise, in part to offset the uncertainty of the situation.

Given all this, you might say, "I'd better do a business plan for this new venture." Months, maybe years, pass while you do research, until finally, you say, "It looks like we'll need $5.5 million to start the new service. Projections show that there's a big potential

ACCEPTABLE LOSS **IS A CONCEPT IN WHICH YOU CONSIDER THE POTENTIAL DOWNSIDE OF WHATEVER RISK YOU ARE ABOUT TO TAKE.**

market for what we'll be offering, and we'll break even in two years. We have $500,000 in our reserves now to invest, but we need to raise another $5 million before we can start, because that's how much money it will take to maintain and grow the new service until it gets into the black. Let's think about this over the weekend." Some seventy-two hours later: "Okay, let's do it! Let's start raising the extra $5 million."

In contrast, when using acceptable-loss reasoning, the idea of getting under way is far more important than having a fixed long-term goal, since you have no idea ahead of time whether your idea will truly work as imagined. So an interior monologue would sound like this:

"By drawing on the company's resources, we have $500,000 to commit to starting the venture. In the worst case, the new service fails. If that happens, the organization is out the $500,000—a lot of money but far less than what we would have lost had we invested millions more." Yes, it's important to have long-term objectives, but it shouldn't be at the expense of taking smart, small steps in the short term. You don't need to invest $5 million from the beginning and go full-throttle into a new business endeavor—by buying new office space, hiring a full-service marketing firm, bringing in tons of new workers—when $500,000 is enough to get the venture off the ground and see what happens.

At this point, an obvious question might be: "What if I need $250 million or some other huge amount to get my venture off the ground?" Does the concept of acceptable loss work here as well?

The short answer is: "Sort of."

The longer answer is: "Not really." Clearly, you can use all the principles of acceptable loss to help you determine if you are truly committed to starting your manufacturing facility, biotech lab, or whatever the venture it is that will consume a lot of capital. But at some point, you may need to attract serious money to make it happen. And that will mean finding serious investors who are going to rely—and will want you to rely—on the traditional way to think about risk. There ain't a darn thing you can do about it.

Ultimately, I doubt there is any reliable formula that can provide security when venturing into the unknown to make it more likely for a particular effort to succeed. But there is absolutely no doubt that acceptable loss will reduce the cost of failure (should there be one). If you fail, you fail cheaply. ■

SIGHTINGS

ELECTRONIC GRAVEYARD

WHATEVER HAPPENED TO YOUR OLD COMPUTER? How about that clunky TV you used to own? Labels tell us the origin of products but can say nothing about where your gadgets might end up. Besides, a "Destined for Agbogbloshie" decal lacks a certain zing. But this suburb outside of Ghana's capital of Accra is precisely where millions of tons of e-waste—discarded electronic devices—build up each year. The four-acre digital dumping ground is a haven for criminals and poses a range of health hazards for the forty thousand residents of the town, nicknamed "Sodom and Gomorrah."

Consumers discard about fifty million tons of e-waste annually, including thirty million U.S. computers and 100 million European cell phones. Recycling electronics is difficult, costly, and dangerous to workers, one reason why some 70 percent of e-waste ends up in third-world nations, which either lack or don't enforce recycling regulations.

Despite an international agreement—unratified by only Afghanistan, Haiti, and the United States—forbidding developed countries to unload e-waste in the developing world, governments and businesses often avoid compliance by labeling shipments as secondhand goods or charitable donations. Instead, products end up in digital cemeteries such as Agbogbloshie, where workers, mainly children, break apart or set fire to devices to salvage copper, brass, aluminum, and zinc, as well as hard drives and other components for resale. They earn $6 to $8 a day, at the cost of exposure to hazardous materials, including arsenic and mercury. Experts estimate that up to 80 percent of the children working in Agbogbloshie have dangerous levels of lead in their blood.

Many expect the situation to only worsen as businesses strive to sate the demands of the world's swelling middle class—the United Nations predicts that by 2020, India alone may produce 500 percent more e-waste from computers and discard eighteen times the number of cell phones than in 2007. Government and industry must eventually step up, but for now each of us should be asking: Do I really need a new iPhone to replace my semi-new iPhone? —VADIM LIBERMAN

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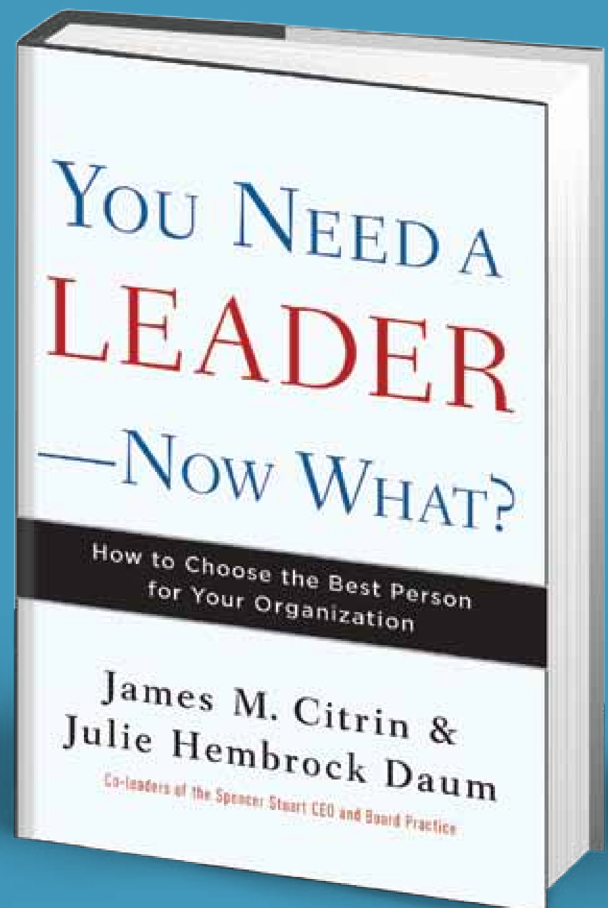

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