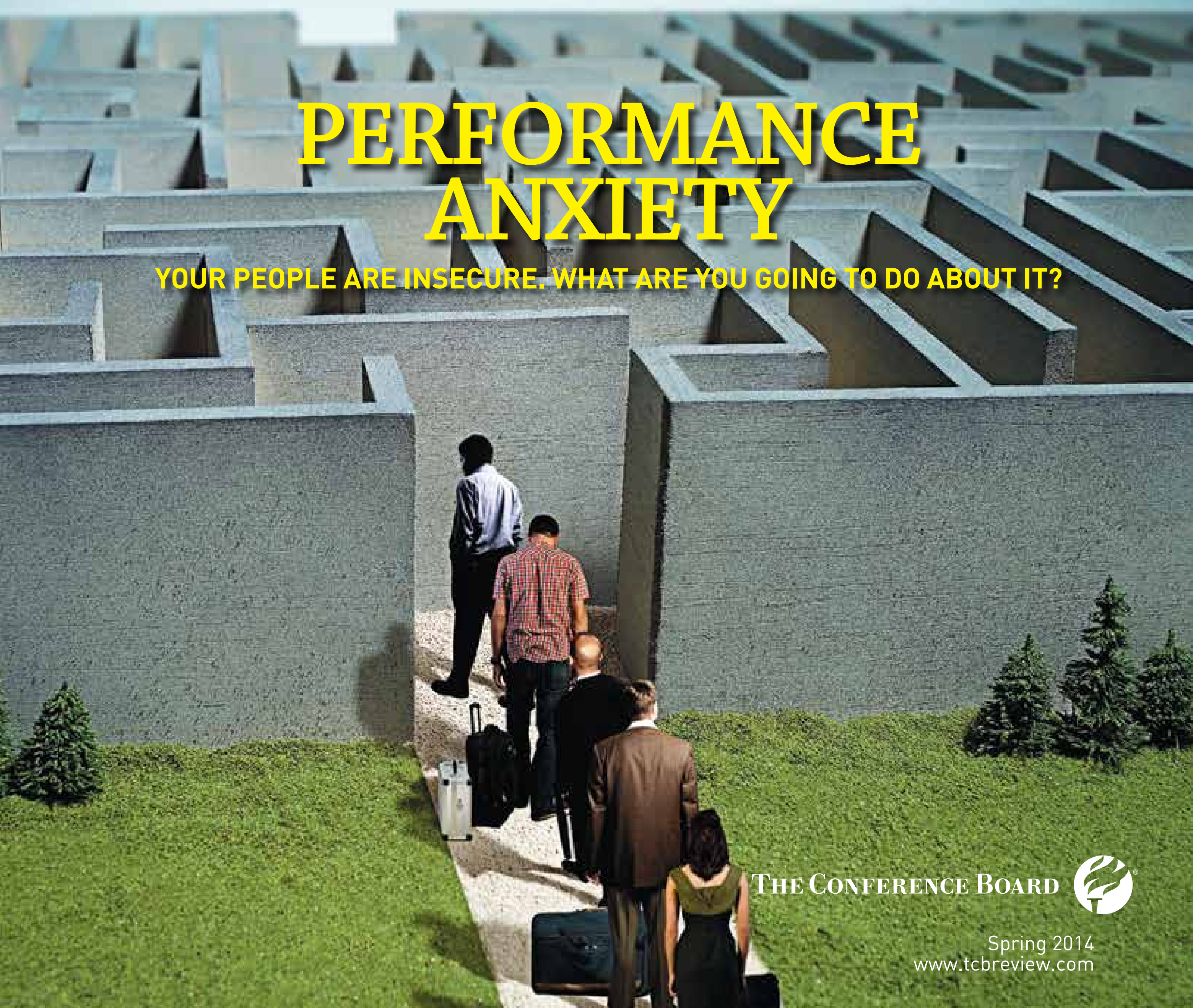
THE CONFERENCE BOARD REVIEW

IDEAS AND OPINIONS FOR THE WORLD'S BUSINESS LEADERS

WHO INSIDE YOUR COMPANY IS HOLDING YOU ACCOUNTABLE?

TO SELL IN CHINA, FIRST TRY UNDERSTANDING CONSUMERS

DO YOU OFFER ALL YOUR PEOPLE THE EXACT SAME HR BENEFITS?



PERFORMANCE ANXIETY

YOUR PEOPLE ARE INSECURE. WHAT ARE YOU GOING TO DO ABOUT IT?

The Conference Board

Spring 2014
www.tcbreview.com

OPENERS

TO MANY PEOPLE OUTSIDE THE BUSINESS WORLD, *SUSTAINABILITY* IS JUST CORPORATE-SPEAK FOR ENVIRONMENTAL CONCERNS. Inside, its meaning keeps expanding to encompass every point at which an organization interacts with the rest of the world—supply chains, product life cycles, risk. Indeed, for many companies, after years of work reducing emissions and waste, it's easy being green—it's everything else that's a problem.

My Q&A this issue with "corporate idealist" Christine Bader describes the scope of work that committed people take on to make their employers do good while doing well. It's a lot more than reducing electricity bills and paper waste.

But it's nowhere near enough.

The flip side of multinational corporations taking an ever-larger share of societal power and authority from government is increased expectations and responsibility for keeping the world running smoothly. That means more than not leaking thousands of gallons of chemical waste into a town's water supply or not helping lay waste to acres of forest in producing palm oil. It means—it *should* mean—working toward keeping society as a whole healthy and stable. CEOs and boards need to think beyond the borders of their companies to what they can do to strengthen the entire environment in which they do business.

The issue of economic inequality, for instance, gets plenty of attention—but not as something relevant to corporate sustainability. And it should be on everyone's radar screen.

There's a general consensus that rising inequality poses a very real threat not only to societal stability but to economic growth, that a weak middle class is, to put it bluntly, bad for business. But business's role in creating that inequality—shifting money from workers to executives—is often overlooked.

In his new bestseller *Capital in the Twenty-First Century*, French economist Thomas Piketty looks closely at how, in the last half-century, the richest one-thousandth of American households have more than doubled their share of the country's wealth, from around 10 percent to more than a fifth. And who are the people at the top of the pyramid? Piketty estimates that 60 to 70 percent of the top 0.1 percent of earners are "supermanagers"—"that is, top executives of large firms who have managed to obtain extremely high, historically unprecedented compensation packages for their labor." As *The New Yorker's* John Cassidy summarizes, the main driver of income inequality "is that major companies are giving their top executives outlandish pay packages . . . Rising income inequality is largely a corporate phenomenon."

And it's more than just annual bonus checks: *Slate's* Jordan Weissmann points out that "an exceptionally tiny circle of Americans is not only commanding a greater and greater share of pay, but . . . they are successfully consolidating their fortunes far faster than 99.9 percent of the country. At the risk of sounding a little melodramatic, this is how an aristocracy gets built."

Aristocracies don't make for healthy markets for anything except luxury goods and cheap basic services, with not much in the middle—where most companies are.

The copy of *TCB Review* you're holding is a little thicker than what you're accustomed to; that's because, as I noted here in January, we've reduced our print frequency to biannual. This Spring issue includes our best work from the last six months.

Until the next print issue, published in October, please check out our newly freshened website, at tcbreview.com—you'll see a series of new blogs, content updated much more frequently, and a more reader-friendly design. And it'd be great if you signed up on the website for our monthly (no more often, and sometimes less) e-newsletter, alerting readers to new features.

MATTHEW BUDMAN
Editor-in-Chief

THE CONFERENCE BOARD REVIEW®

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VOL. LI, NO. 1

PRODUCTION
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www.glcdelivers.com
900 Skokie Blvd Ste 200
Northbrook IL 60062

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Periodicals postage paid at New York, N.Y., and additional mailing offices. *The Conference Board Review* (ISSN 0147-1554) is published biannually by The Conference Board Inc., Jonathan Spector, CEO, 845 3rd Ave., New York, N.Y. 10022.
Telephone: 212-759-0900.

Subscriptions:
Conference Board Associates, $39 annually. Non-Associates, $59 annually. For subscriptions mailed to non-U.S. or U.S. Possession addresses, add $21. Subscriber services: 212-339-0345.

Postmaster:
Send changes of address to: The Conference Board Review/Customer Service, The Conference Board, 845 3rd Avenue, New York, NY 10022

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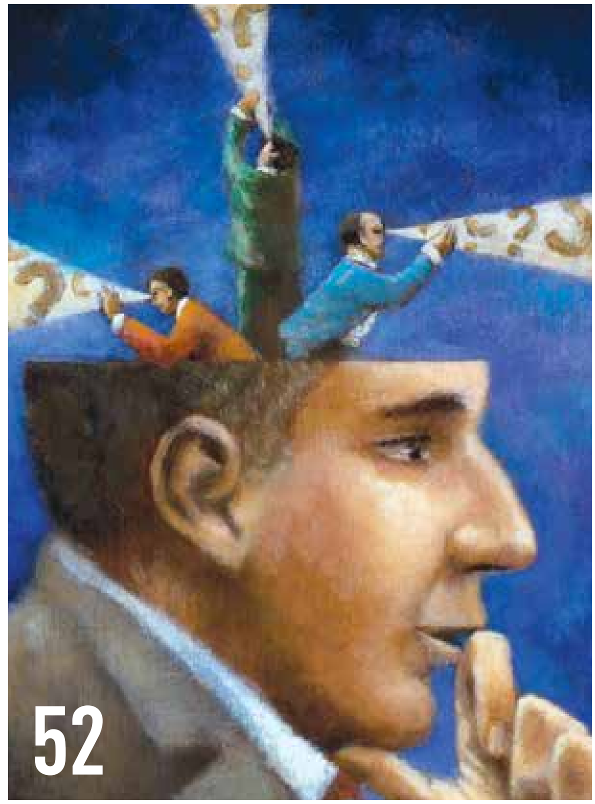

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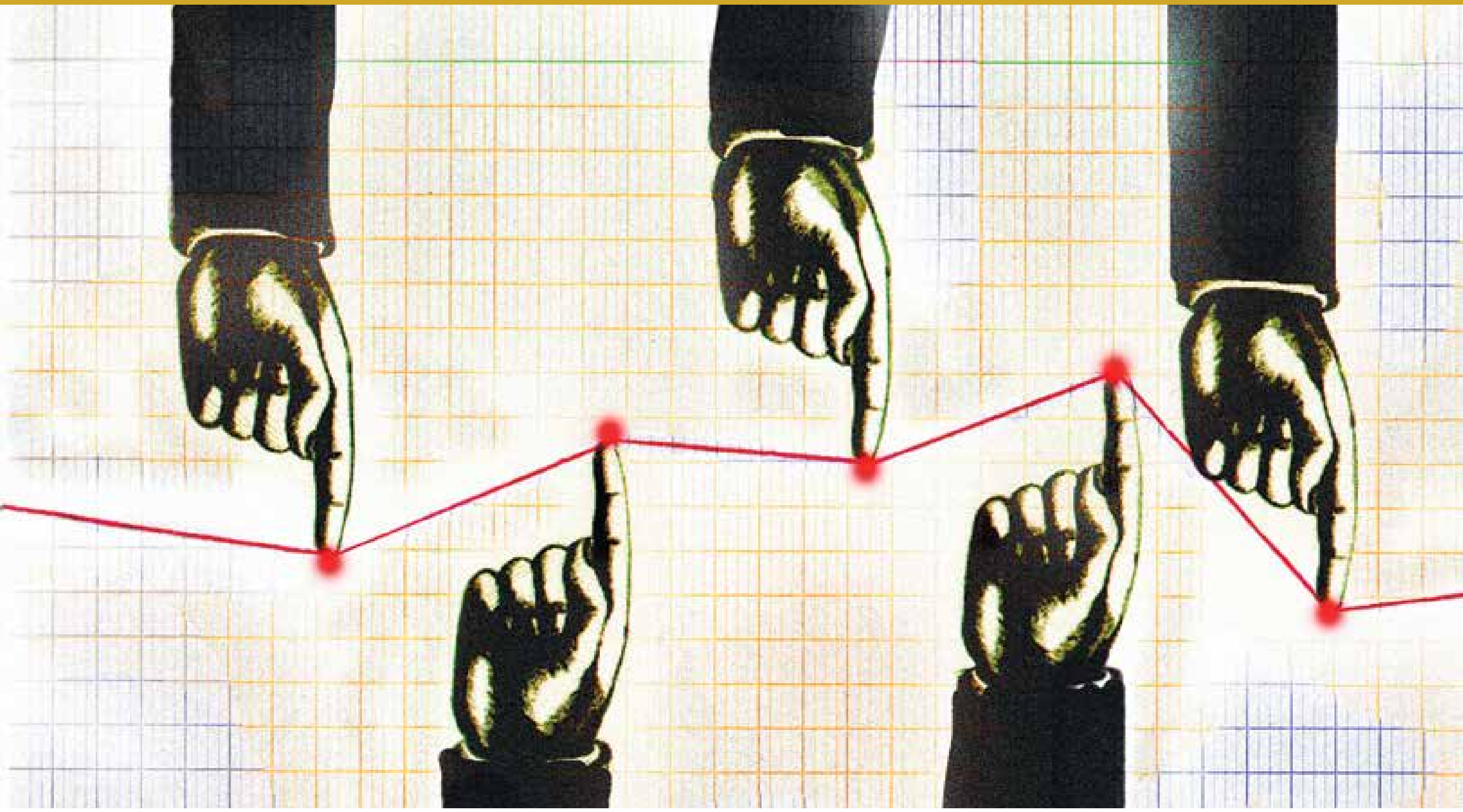

Alienate Customers? Forgo Sales? Lose Investors?

BY DAVID L. DOTLICH, PETER C. CAIRO, AND CADE COWAN

DAVID L. DOTLICH is chairman and CEO of Pivot Leadership and co-author of eleven books; PETER C. CAIRO is a consultant and co-author of six books; CADE COWAN is head of Pivot Leadership's global leadership practice. Cairo and Dotlich co-wrote the feature "Embracing Ambiguity," in the Summer 2009 issue. From *The Unfinished Leader: Balancing Contradictory Answers to Unsolvable Problems*. Reprinted by permission from Jossey-Bass, a Wiley brand. ©2014 by Dotlich, Cairo, and Cowan.

IN RECENT YEARS, PROBLEMS IN WORK, LIFE, AND LEADERSHIP HAVE COME TO BRISTLE WITH COMPLEXITY. Complexity comes from the greater number of systems that run our lives, the greater interdependence of those systems, the greater scope and scale of systems locally and globally, and the greater number of people—all with their own interests in how the systems should work and what they should achieve. All of this means that leaders need to consider a greater number of outcomes—especially unintended ones—for any solution they develop. The growth in complexity is proportional to the multiplication of paradoxes.

In fact, in industry, you can almost mark your calendar, decade by decade, with the layers of accumulating complexity. After World War II, business aimed largely at building a lot for a little—

the imperative was to achieve material and labor efficiency. In the 1960s, the imperative grew to include safety and health for workers. In the 1970s, it grew to include environmentally friendly operations. In the 1980s, world-beating quality systems and products came on strong. In the 1990s, so did demands to deliver unparalleled design, speed, profitability, and global reach. In the 2000s, it became imperative to include transparency, community consciousness, and on-the-job meaning.

We oversimplify, of course. But the layers of complexity have mounted relentlessly, along with opposing forces that can define the paradoxes in management and life. Consider Indra Nooyi, chair and CEO of PepsiCo. Until recently, Pepsi, like McDonald's, Kraft, and Nestlé, could focus on creating products that tasted good without being overly concerned about whether they were also good for their customers. They could produce their products without fear of coming under attack from politicians or consumers accusing them of fattening up the populations of the developing world for profit.

No more. When Nooyi took over, she managed a portfolio of products that had long included salty snacks and sugar-filled beverages. But increasingly, activists attacked the company for plying customers with high sodium and sugar, the villains in illnesses such as atherosclerosis, heart disease, and diabetes. On top of all the other forces in business today, Nooyi has encountered this new one. She faces a new paradoxical situation, though she doesn't stand as a neutral party. She is chair of the *Healthy Weight Commitment Foundation* and clearly concerned about obesity, diabetes, and other problems caused by unhealthy eating.

Which direction does Nooyi turn? Does she risk alienating customers by taking the salt and sugar out of beloved products? Does she risk forgoing sales as the company revamps its product lineup? Does she risk losing investors who believe she should stick to her tried-and-true success formula? Nooyi has made a public commitment to create products that are "fun for you" and "good for you." Now she has to figure out how to negotiate so many paradoxical forces.

Managing the paradox of good taste versus good health is challenging for many reasons. For one thing, existing products provide the revenue stream the company is using to research and develop healthier products. For another, if Nooyi goes too slowly, she risks political fallout. When he was mayor of New York City, Michael Bloomberg insisted that New York *ban* super-size beverage containers, and the echo of his message still reverberates nationwide. Third, as a global company, Pepsi is aggressively pursuing markets in developing countries, which makes Nooyi vulnerable to charges of selling unhealthy products to countries with nutritional challenges.

She has taken the first step to managing this paradox effectively: acknowledging it exists. She recognizes that good taste and good health are opposing points on a continuum—and yet may be reconcilable. She also believes the choices should be transparent to consumers, allowing them to make informed decisions. As a result, she is trying to anticipate the sensitivities of various groups and approach these dilemmas with a different mindset. So part of her solution is to invest heavily in new "better for you" products.

We can assume that our problems will only grow more and more paradoxical the way Nooyi's have, and probably not at a slower rate. Unlike their predecessors, leaders of today can often come up with six or eight options instead of just a couple. All may be of apparently equal value. And informed employees and publics argue vehemently for their varied positions, each opposed to one or more of the others and all sure of their own rightness. As outside stakeholders weigh in with more force, no amount of research will clarify the truth—because there is no clear, single truth to be found. Meanwhile, data overload will make it harder, not easier, to locate unbiased information in time to make clear decisions.

The volatility of our times adds to complexity. Consider what happens when, eager to increase flexibility, you flatten your company's structure to foster close-to-the-customer innovation, accelerate decisions, and reduce costs. As you broaden the span of control, reorganize into teams, and encourage participatory decision-making, you encounter new inefficiencies. Execution may become bogged down. That creates pressure on you to change processes and thinking, highlighting the paradox of execution versus innovation.

As change catalyzes the need for managing new paradoxes that didn't even exist eight or ten years ago, it will become clear that recognizing and understanding paradox has become a critical skill at any level of the organization. If you approach a problem as a paradox and you really have a puzzle, no harm done. If you approach a problem as a puzzle and you really have a paradox, you will waste untold time and money fighting for a solution that may not exist and an outcome that is not possible.

Lost in Leaderland BY JIM STROUP

When a field of "knowledge" is addressed by "scientists" or, at least, by professed students of that field, it is only fair that we should be able to expect a few things to emerge from their attentions. The three most obvious and essential are:

1. A systematic, coherent model of the field is developed.

2. In connection with the above, the essential elements of the model are identifiable and their roles in the model clarified.

3. In connection with both of the above, predictions about the future from the current state of the model or of its component elements can be made.

The key problem with the putative field of "leadership studies" is that none of these things exists—at least not in a form accepted generally by the body of "researchers" and "practitioners" in the field.

The numerous models proffered conflict with each other, and no one agrees—even to the extent merely of a plurality of observers—on one of them as dominant or most probably accurate.

Worse, virtually all of these models lack coherency—they are riddled with internal contradictions. These arise in a variety of ways in the systems that various people develop, but most obviously in their descriptions of the most essential element thereof: leaders. Experts gush reverently about the various characteristics exhibited by the "leaders" they have studied, ultimately offering a list of the key traits that extraordinary leaders tend to have.

But as it turns out, they might as well be speaking in tongues. No single exemplar of leadership in their menagerie seems capable of expressing all of those deemed essential to the definition. How can it be that traits deemed essential components of individual leadership are not all possessed by any of those promoted as leaders?

There is no brushing this aside. There is no pretending that leadership systems don't rely on such identifiers, that they are unreliable, and that many identified as leaders by these experts don't merely lack but can even be perfectly frightening regarding their relation to one or more other of the "essential" components on any given list.

As a result, these models lack the ability to help us determine who actually performs what role with respect to leadership presently in our organizations. Following from that, neither can they help us predict who has the potential, and should be prepared, to perform these roles in the future.

Surely, then, this is not a genuine field of scientific investigation. Please don't let anyone kid you otherwise. It is really just talk. Enthusiastic, often fun, sometimes mysteriously flattering, but always fundamentally empty talk.

JIM STROUP is a management consultant specializing in organizational leadership. From his blog, Managing Leadership.

Taking You Seriously

BY JEN SHIRKANI

WHETHER IT'S THE TIME YOU ARRIVE AT WORK, THE WAY YOU SIGN YOUR EMAILS, OR THE ACCOLADES YOU GIVE OR NEGLECT TO GIVE TO TEAM MEMBERS AT THE YEAR-END PARTY—IN ALL THESE WAYS, AND MANY MORE, YOUR EMPLOYEES ARE WATCHING YOU.

While many leaders know in a general sense that others are observing and reacting to them, they are often surprised by the degree of detail on which employees zero in. "I understand your pet peeve is semicolons," I recently shared with a CEO client of mine, who chuckled with surprise that people had noticed. "People are talking about that?" he asked. Yep, people are talking about that.

As noted by Michael Porter and Nitin Nohria in Harvard Business Press's *Handbook of Leadership Theory and Practice:* "Although the power of the CEO's position is often overestimated, in one respect it is sometimes underestimated—and that is its symbolic significance. CEOs we have studied are often surprised by how much their every behavior is scrutinized and the symbolic messages people derive from these behaviors." When the leader makes an offhand comment about hating semicolons, his team may interpret that as a directive on writing style for company emails. When the leader points out an employee for bringing lunch from home—while the rest of the team orders in—the employee may quickly calculate that, to fit into this culture, she has to give up her healthy midday meals and up her lunch budget.

Simple statements and actions often take on great weight when it's the leader who's making them. Individuals want to please the leader, out of deference and respect, and because they often perceive their jobs as depending on it. So they take each and every word and action by the leader seriously, even when the leader says something offhanded or even in jest.

If folks quietly tell one another not to send the boss emails with too many semicolons after they've heard him complain about them, as they did at my client's company, just imagine how they react to more significant behavior on the part of the leader.

JEN SHIRKANI is founder and CEO of Penumbra Group, an employee-training and -development firm. Excerpted from *Ego vs. EQ: How Top Leaders Beat 8 Ego Traps With Emotional Intelligence* (Bibliomotion). ©2013

You Can't Afford a Manager From Hell

BY SHAWN MURPHY

Bob Sutton calls them assholes, which is perhaps a bit too descriptive for some. Managers from hell make work life unbearable.

Certainly every organization has its group of managers who trigger morning drudgery in employees' routines getting ready for work. Listing the effects of mean managers, asshole-managers, or managers-from-hell on the workplace would generate a too-familiar list—perhaps an exercise in futility.

Gallup recently quantified the cost of hellish managers. Apparently this phenomenon costs the U.S. economy upward of $550 billion annually. Ouch. I'm no mathematician, but the more of these ineffective managers your organization keeps, the bigger slice of the $550 billion bitter pie you get to eat.

So I have a challenge for all organizations—public or private—who refuse to deal with the managers from hell: Get rid of them. Send an invaluable signal to your employees that such nonsense is no longer acceptable.

Let your people know that the culture you say is important is indeed truly vital to your company's success.

Let conversations emerge that highlight the importance of the values in employees' actions and that interactions that you painstakingly developed actually matter.

Give hope to your employees that their workplace can be a positive contribution to their lives by getting rid of crappy managers.

If you think my challenge naïve, think about the millions of Americans looking for work. Finding a manager who better embodies your company's values, who can thrive in the culture you want, won't be difficult.

Sure, some of the crappy managers are towers of knowledge. That knowledge, however, is poisoned, tainted with bitterness that when shared, if it is shared, only divides and alienates. Your company's culture and business goals are more important than poisonous knowledge that restrains progress and limits ideas.

This is the Information Age. Knowledge is vital to thrive in today's dynamic workplace. Treating employees, and approaching one's work, as though we're still in the Industrial Era is as antiquated as keeping underperforming managers.

In this age of information, don't be fooled into believing that knowledge of your crappy managers is contained within your company's walls. Internet sites such as Glassdoor.com are likely containers of examples of your mean managers' ineffective antics.

Take control of the situation. It's really your best choice. It may sting at first. But keep your eye on the longer-term picture. Your employees, customers, and your goals depend on and deserve managers who value people and honor your company's purpose.

Of course, this assumes you care about such things.

SHAWN MURPHY is owner and principal consultant at Achieved Strategies, a change-management consultancy, and co-founder of the Switch and Shift blog, from which this is reprinted.

Be Patient?

BY IDO LEFFLER AND LANCE KALISH

ONE THING YOU WILL HEAR OVER AND OVER AS YOU BUILD YOUR IDEAS AND YOUR BUSINESS IS, "YOU NEED TO BE PATIENT."

We think patience is bullshit. Patience means sitting by a phone waiting for someone to return your call. Or dealing with people who say, "Let me think about it." Patience is a great spiritual practice, but if it stops you from acting, then it is stopping you from succeeding. Don't let the concept of patience stop you from getting on a plane, hustling a meeting, or finagling your way into an industry conference that you don't have a hope in hell of being invited to attend.

The flip side to this is that you've got to be somewhat patient for process. At Yes To, we have to be patient while product formulations are developed, and that's about it. Our formulations are key to our integrity and success, so we give them as much time as they need. So long as we don't rush through this process, we can proceed at full velocity through all the others. Patience? Who has time for patience when there's a whole world out there to talk to about Yes To!

If we were to do this business the way the world had told us to, we would have launched in mom-and-pop stores in the naturals world, we would next have gone to Whole Foods (a.k.a. the Holy Grail), and then maybe we would have been able to get an account somewhere else. And that would all be fine, but instead of being a global business that has accounts in more than 25,000 stores and is number two in our category, we'd be a struggling beauty brand sweating about covering our costs.

Don't fool yourself that you are being patient if what you are really doing is procrastinating or giving in to your unconscious fears about success.

IDO LEFFLER and LANCE KALISH are the founders of Yes To Inc., maker of hair and skincare products. From *Get Big Fast and Do More Good: Start Your Business, Make It Huge*, and *Change the World* (New Harvest). ©2013

Apples to Apples

BY JEREMY EDEN AND TERRI LONG

The premise of benchmarking sounds great. You can see how you stack up against competitors so you can target ways to match or outperform them. It seems reasonable to think that if your direct competitor can achieve 98 percent yield in their factories while you can achieve only 94 percent, then they must be doing something that you should start doing.

Benchmarking supposedly works by knocking down your resistance to change by compelling you with hard facts that someone else is performing better and then by motivating you to find the specific actions someone else is doing that you should be adopting.

Except that in practice, benchmarking is usually a complete waste of time, because invariably no one is doing exactly what you are doing. So after months of data collection showing that you are in the second quartile of performance rather than the first, more months are spent arguing—usually correctly—that the measurements are not comparing apples to apples.

In the First Bank of Big City, they record each action when serving a customer separately when they report transactions per teller, but in Second Bank of Big City, they count certain actions done with one customer together when they report transactions per teller.

Even when the measures do compare apples to apples, the actions that one takes are not meaningful to the other. In Big City, they have so many transactions that it pays to have some of them automated, while in Small City, there are just too few. More months spent arguing without gaining insight.

The second irony is that while benchmarking is supposed to motivate change, it more often than not is used to justify the status quo. "We're above average" or "we're in the second quartile" are used to justify "we're good enough."

Instead of benchmarking, you need to take the position that the executive VP of a call center took with his troops: "You know that according to industry measures, we are among the absolute best performers. But you also know that even the best in our industry can be a lot better. So let's compare ourselves not to what others accept but, rather, to what we expect."

■ JEREMY EDEN and TERRI LONG are co-founders and co-CEOs of Harvest Earnings, a Chicago-area management consultancy. From *Low-Hanging Fruit: 77 Eye-Opening Ways to Improve Productivity and Profits* (Wiley). ©2014

One Size Does Not Fit All

BY ANDREA COVILLE WITH PAUL B. BROWN

ALMOST EVERYONE THINKS SUCCESSFUL INNOVATION STARTS WITH A GREAT IDEA. ALMOST EVERYONE IS WRONG. The great idea comes second. You must begin with the killer insight, a deep truth significant enough that it helps you make a meaningful number of sales or allows you to forge relationships with a large number of people.

Ultimately, an insight tries to make someone's life simpler and more economical, profitable, efficient, and—if it is truly meaningful—worthwhile.

And the easiest way to come up with that insight, an idea that is going to resonate with your customers and potential customers (in addition to increasing sales, earnings, and market share), is to connect an attribute of your offering to a need your customers have. Then you must show how what you have come up with can make their lives better. More specifically, you want to demonstrate why at least some aspect of your offering solves a problem or fills a need that is relevant to your customers.

Why is developing the insight the place to begin? That's simple. Insights are so important because ideas are so easy. We are convinced you could come up with twenty killer ideas before lunch—everything from making it possible to fly a jet to work to simplifying the tax code—if you really had to.

Coming up with ideas isn't a problem. But, ironically, starting with the idea—even if it is a great idea—can be. Why? Because if you start with an idea, there is no guarantee you are going to connect with your target audience. You could come up with a solution for no known problem. Or for a problem that your target customers simply don't have. Examples abound. The following comes courtesy of innovation consultant Mike Maddock and his book *Brand New*:

The Iridium phone was a truly great invention. We are guessing here, but we believe that the inspiration for the product was this:

Wouldn't it be great if we created a cell phone that allowed you to call or email anyone in the world from anywhere in the world at any time? And by everywhere, we mean everywhere: the poles, oceans, sky, and absolutely everywhere in between.

Who wouldn't want a phone capable of delivering communications to and from the most remote areas in the world, where absolutely no other form of communication is available?

When you ask the question that way, the answer would be:

Of course everyone is going to want one.

But when you started giving people a bit more information ("the phones are going to cost what?" and "how much a month?" and "the charge per minute is going to be what?"), you would quickly realize that the number of people who want the phone and are willing to pay for it is not large enough to support the investment.

That's why you need to start not with the idea but with the insight that identifies what the market needs and is willing to pay for.

And when you do, your default position must be this: You cannot be all things to all people. Common sense tells you why.

First, it is virtually impossible to find a product that everyone needs. Water, you say. OK. Tap? Naturally sparkling? Carbonated? Bottled? Branded? Imported? Single-source? Flavored? With vitamins added? You get the idea. Even what seems like the world's most basic commodity, water, can—and has been—sliced and diced (if you can slice and dice water) into endless variations.

Second, you run the risk of looking ridiculous if you try to be all things to everyone. Think about people who don't dress age-appropriately. It is not a pretty sight. It is no different when you twist yourself into a pretzel trying to make your state-of-the-art router seem appealing to everyone ("Grandparents will love it because . . .") or when you attempt to make that new boy band into a group for "music lovers of all ages."

Third, reaching the widest possible audience requires you to be extremely bland. You can't risk offending anyone for any conceivable reason as you search to lure every possible customer you can. And bland things are, by definition, commodities. There is no emotional connection to a commodity. (Don't believe us? How connected are you to tap water or white sneaker laces? They are commodities and don't offend anyone, unless there is some kind of flaw with them. But you are not fiercely loyal to them either.)

You can't be all things to all people and still be relevant. To be relevant, you need to find a need you can satisfy and then fulfill that need for a core audience. You build from there.

■ ANDREA COVILLE is CEO of Brodeur Partners, a Boston-based PR and communications agency. PAUL B. BROWN is author or co-author of more than a dozen business books and a former *TCB Review* columnist. Excerpted with permission from *Relevance: The Power to Change Minds and Behavior and Stay Ahead of the Competition* (Bibliomotion).

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TREAT YOUR *employees* LIKE *consumers*

THEY DON'T ALL WANT THE SAME THINGS.

BY JOHN M. BREMEN AND THOMAS O. DAVENPORT

HOW DO YOU DEFINE YOUR PEOPLE? THROUGH THE ECONOMIC EXPANSIONS AND CONTRACTIONS OF THE PAST TWENTY YEARS, EXECUTIVES HAVE STRUGGLED TO DEFINE AND REDEFINE THE EMPLOYER-EMPLOYEE RELATIONSHIP, USING VARIOUS ANALOGIES, METAPHORS, AND SOUND BITES TO EXPLAIN THE COMPLEX, SHIFTING CONNECTION.

EMPLOYEES ARE NO LONGER PERSONNEL, COSTS, OR WORKERS—THEY'RE ASSOCIATES, ASSETS, THINKERS. THEY'RE CERTAINLY NOT COGS IN THE INDUSTRIAL MACHINE—TODAY, THEY'RE KEY LINKS IN THE CUSTOMER VALUE CHAIN.

And with corporate workforce increasingly global and diverse, HR departments are recognizing the ineffectiveness of dealing with every employee in exactly the same way. Just as companies are using technology and Big Data to aim products and services at ever more carefully targeted segments of customers, they're starting to look closely at the different parts of their multi-varied workforces.

Employees are more mobile, educated, technologically enabled, and short-term-focused than ever. They also have become savvy consumers of their organizations' brands, culture, and employee programs—compensation, benefits, and career development, to name a few. And with the first Generation Z employees entering the workforce, employee populations' preferences and expectations continue to change.

Along with these changes has come a greater degree of employee choice, making corporate life a marketplace and employees its consumers. Consumerism is a common theme in the migration from traditional defined-benefit pension plans to employee-driven 401(k) plans, the evolution of flexible-benefit programs and cafeteria-style plans, and the recent transition of many U.S. organizations to private health-insurance exchanges. This trend also has inspired organizations to begin tailoring elements of the work experience to their increasingly diverse employee populations.

Faced with the new reality of today's consumer-employee, leading companies have turned to consumer marketing theory to gain insights about and connect with their current and potential talent. They now view the employer-employee exchange as analogous to an interdependent exchange between a company and an external consumer, with consumer-focused practices playing a key role.

SEGMENTING THE EMPLOYEE POPULATION

We frequently ask our CEO clients: "How often do you spend $3 billion to develop a product offering without first finding out whether it will sell?" The response is typically, "You know darn well that if I did that too often, I wouldn't stay in this chair long."

Yet every year the typical global organization with twenty thousand employees invests approximately $3 billion in employee programs that include salaries and bonuses, stock grants, healthcare and retirement benefits, training, and paid time off. These employers also invest in creating employee-friendly cultures and workplaces. And too often, organizations spend these funds without clearly understanding whether the programs align with the preferences and usage patterns of those who will consume them, or whether they're likely to achieve their intended results.

This is where segmentation can play a valuable role. Just as organizations segment external consumer populations, they can segment employee groups to explore their values, attitudes, and preferences.

Some organizations begin the process with conventional demographic categories, such as Generation X, millennials, and baby boomers. Others use more fine-grained segmentation approaches that can provide more specific insight. These include:

Strategically critical jobs or locations. These can be specific roles, geographies, and businesses that make or are expected to make important contributions to marketplace success. To identify these, employers consider the employee knowledge, experience, skills, talents, and behaviors the organization needs to win against its competition.

In place of traditional HR reward categories, Disney uses sub-brand program slogans:

Levels of performance or potential. These are categories of employees' current or expected contribution—such as "high performer" and "high potential." This type of segmentation can be effective when leadership has confidence in the accuracy of the performance-evaluation and talent-management systems.

Levels of sustainable engagement. Employees can be grouped according to their degree of attachment to the company, their willingness to give discretionary effort to their jobs, their perception of the local work environment as supporting their performance, and the levels of physical, social, and emotional well-being they experience at work. These factors correlate strongly with financial performance.

Life-stage segments. These are highly specific groups defined by a variety of characteristics, including health-related indicators, technology usage, and media preferences.

Talent profitability. Just as organizations segment their external markets by profitability or total customer value, employers can segment employees by the contributions they make relative to their cost over multiyear periods.

Attitudinal categories. Generally analogous to traditional psychographic factors, these groupings emphasize the clusters of rewards valued by employees who differ in their expectations of the work experience.

CREATING THE EMPLOYMENT BRAND

Marketing sage Philip Kotler defines a brand as an organization's promise to deliver a specific set of features, benefits, and services to consumers. A brand also functions as a complex symbol that conveys up to six levels of meaning: attributes, benefits, values, culture, personality, and user. When the consumer can visualize all six dimensions of a brand, his or her perception of the brand is deeply imbedded; otherwise, it's shallow.

Organizations that are adept at developing and marketing their external brands were among the first to recognize that employees can feel strong connections to their organizations' internal brands. Via the internal brand, employees can associate the company with a variety of organizational attributes ("our strengths/differentiators"), benefits ("what you get for working here"), values ("what we stand for"),

culture ("how we operate"), personality ("who we are") and user ("what kind of people work here").

An Internet search of various organizations' public career sites reveals strong links between these companies' employment brands and their external brands:

Similarly, Disney has cleverly branded its reward offering—including compensation, benefits, and the career-development program—as "Support beyond your imagination." And instead of the traditional reward categories, the company uses sub-brand program slogans that include Understand Your Pay, Pursue Good Health, Build Your Career, Take Time to Refuel, Save for Tomorrow, and Enjoy the Magic.

internal brand statements

P&G	Inspired by purpose: Have your career validated 4 billion times a day.
Disney	Where your work touches lives
Facebook	We're making the world more open and connected. Want to help?
Apple	Amaze yourself. Amaze the world.
BMW	Share your passion.
Medtronic	Be The Difference. Imagine a career improving lives.
Limited Brands	We are redefining what it means to be sought after.
JPMorgan Chase	Let's build our legacy together.
Google	Do cool things that matter.
Nike	We set the bar high. And then we raise it higher.
Miller Coors	Great People Make Great Beer.
Allstate	Don't just work. Work for good.
IBM	Help us build a smarter planet.
Intel	There's more inside Intel than you ever imagined.
Honda	The Power of Dreams is alive at Honda.
Cisco	Tomorrow starts here.
Kellogg	Grow with us.

In some cases, the external and internal brand statements are the same.

The most sophisticated of these organizations incorporate their employment brands into the employee experience through their talent-management programs and compensation-and-benefits programs in ways to which their targeted groups can relate.

For example, on its website, Google expands its "Do cool things that matter" brand slogan to include three categories, used to explain various teams and roles to current and potential talent: "Build cool stuff; sell cool stuff; do cool stuff." It's how the employer appeals to employees and recruits in a more interesting way—and in a manner more aligned with the Google brand—than using conventional department names, such as Engineering, Sales, Customer Support, Finance, and Administration.

As employers determine how to frame their internal consumer brands, microsegmentation analysis can provide information far beyond that gleaned through conventional demographic breakdowns. These approaches help employers sharpen messages aimed at various employee segments, as they address what matters most to targeted internal groups. They also help leaders understand how employees—just like external consumers—perceive greater value when they receive clear messages that speak directly to their interests. For instance, segmenting the workforce according to "life-stage profiles" (see "How Do You Live Your Life?", next page) can help employers develop even more compelling internal brands and employee experiences.

how do you live your life?

A Web-based travel company grouped its employees according to how they live their lives, how they view their work, what they value most in the employment value proposition, and how they prefer to receive information. One group was dubbed Young Achievers. The employees in this group work hard but also highly value time with friends. They know they'll need to plan for retirement, but they don't want to think that far out or deflect income away from their short-term wants. They try to stay healthy by exercising—though admittedly not enough—and they like wellness activities best when games are involved, perhaps with a social-networking element. Company leaders know they can't reach this group with printed materials or even email. If the information isn't posted on Facebook or accessible via a smartphone, the Young Achievers literally won't get it.

A contrasting segment is the Affluent Empty Nesters. These folks have put their kids through college and now have time and money to spend on themselves. They go to the gym regularly. They are health-conscious, have regular medical checkups, and do the research necessary to manage their health intelligently. Affluent Empty Nesters highly value rewards focused on wellness. Though they have smartphones, they do read email alerts, download and absorb reports, and do in-depth online research.

Life-stage profiles and other schema for imaginative assessments of employee attitudes help an organization shape an internal brand that resonates with its workforce. They also tell leadership how best to reach employee-consumers with brand messages and delivery approaches packed with meaning and relevance. In Philip Kotler's terms, this yields employment brands that are deep rather than shallow.

—J.M.B. and T.O.D.

DESIGNING PROGRAMS THAT YIELD RESULTS

At this point, senior executives often say, "This is all very interesting and inspiring, but does it actually have an impact on business results for these organizations?" The short answer is yes.

A recent Towers Watson survey of 1,605 organizations in more than thirty countries found that companies guided by an employee value proposition reflecting an integrated approach to decision-making regarding total rewards strategy, design, and delivery are five times more likely than their peers to have highly engaged employees. And they're twice as likely to perform significantly above their peers financially.

To create an internal brand that is both deep and financially sensible, employers must combine information about current and potential employees' preferences with data on the cost of delivering various reward portfolio elements. The objective is twofold: First, define the value proposition most appealing to key demographic groups; second, shift funds to high-value rewards and away from low-value programs that are too costly for the results they produce. For many decades, consumer-oriented companies have been doing this with their external consumers. They have conducted increasingly sophisticated market research to estimate how their target segments will respond to the features, prices, and packaging of existing and proposed offerings. It turns out that this approach works well for internal consumers, too.

Employers can conduct several types of research to examine how employees in various segments value "hard" programs such as compensation and benefits, as well as "soft" programs such as career development and the work environment:

Focus groups. Talking with small groups of employees about how they view the organization's programs can provide insights about changes those workers are likely to value.

Data mining. By analyzing Big Data in the company's HR information system, employers can learn how employees use such elements as healthcare benefits and 401(k) plans. For example, discovering that only 3 percent of a division's high-potential employees younger than 30 contribute to the retirement savings plan reveals something about those employees' perception of the plan's value and their ability to harness it.

Employee surveys. There are many ways to engage employees in a formal research process to learn how they value and use programs. One high-tech organization asked employees how familiar they were with each element of the reward array, how valuable they perceived each element to be, and how they believed each element stacked up against competitors' offerings. The employer compared these data with the actual competitive position of the company's rewards and the commitment levels of employees in various segments. The results gave leaders important guidance on how to reallocate the company's reward investments to improve employees' commitment and how to communicate with employees about making the best of the rewards offered.

The analysis then drilled into results for the company's China-based workforce—a strategically critical and rapidly changing employee segment.

Trade-off analysis. Program trade-off analyses provide some of the richest data available on what employees see as the most and least valuable components of their reward packages. Such an analysis also gives them a sense of the decisions that leadership needs to make about where to put program investments. The information helps leaders make the right investment decisions to deliver a value proposition likely to foster the desired employee (read: consumer) behaviors.

CONSUMER-GRADE DELIVERY

Leading companies are taking cues from externally focused, consumer-targeted efforts—which have given rise to the popular concept labeled "consumer experience"—as they examine and reshape the employee experience. This means understanding the impressions that employees form across a range of experiences with the organization, from the talent selection process to onboarding, performance management, compensation, benefit programs, career progression, and retirement.

As the chief HR officer of one global life-sciences company said recently, "Just as the chief marketing officer has become the chief consumer-experience officer, I have become the 'chief employee-experience officer.' That's a long way from being a personnel manager."

To understand this employee experience concept, one need only consider certain signature consumer experiences today: the simplicity of finding and buying a book on Amazon.com; the welcoming experience at a Ritz-Carlton hotel; the look and feel of a brochure at a Lexus dealer; the helpfulness of the Whole Foods clerk who knows just where to find the local organic cheese that's perfect for a dinner party; the essential app a user can seamlessly download to a smartphone to use on the train on the way to work.

Each of these experiences, and many more like them, set the bar today for what people expect when they engage with an employer. Employees evaluate the ease and appeal of their work experience not just by what they've come to expect from HR, but also by what they experience every day: culture, work environment, leadership messages, and reward programs.

To savvy employees, *consumer grade* means:

Coherent, consistent messages. Employees expect the content and look-and-feel of employee communications, programs, and the workplace to be consistent with the company's brand, mission, and other promises. This includes email messages, websites, printed materials sent to employees' offices or homes, leader presentations and videos, the design of the work environment, and the design of compensation and benefit programs.

Communication via multiple media and channels. Workers want information to be available on their terms, whether on paper or accessible on any device at any time. They also want support as needed from an HR professional, a help line, a vendor, or a manager.

Easy-to-navigate technology. This means minimal screens and clicking, along with appealing elements, such as whiteboards, video, and games where appropriate. Employees want tech tools to be fun and absorbing while also informative and useful.

Secure data with streamlined access. Employees do not want extraneous data requests, and they want assurance that their personal information is protected and kept confidential.

Continuous improvement. They want management to test and continuously refine technology, vehicles, and communications.

The challenge for the employer is to deliver an employee experience that aligns with the experience of the organization's external customers.

One global bank has taken this challenge to heart with an internal information campaign aimed at improving employees' financial awareness. Leaders recognize the importance of being consumer-minded as they guide employees to make saving and investment decisions carefully. The bank believes it's the right thing to do as an employer, especially given its position in the retail banking business. For a journalistic feel, the campaign uses whiteboards and mini-documentary videos, with employees talking about their lives and life plans. A peer organization is now doing the same with its choice-based healthcare programs.

Achieving a consumer-grade level of excellence also means setting employee expectations, not lagging behind them. Aviva, an insurance and asset-management company, kept this in mind in developing its pension-plan website. As employees navigate through the site, they participate in a game called Save Your Future. The game tests the user's understanding of basic financial concepts and of Aviva's retirement contribution plan. The user scores points for answering questions correctly: A low scorer is labeled a Retirement Rookie, someone who needs to focus more on saving for retirement and on understanding the Aviva benefit; a high scorer might be dubbed a Super Savings Whiz, a disciplined saver who must stay the course to ensure a comfortable retirement.

Aviva collects data on employees' use of employer-provided retirement planning tools, and the information helps leaders upgrade the employee experience. Initial results from Save

Your Future showed that many employees did not understand investment asset allocation. That finding led management to develop a series of short films on how to think about investment decisions.

Organizations that understand and act on employees' needs and preferences are likely to have motivated, committed workforces. And they have found that even with reward budgets no greater than less market-oriented peers', prudent and disciplined organizations can achieve these goals. Their employees will serve customers better, innovate more frequently and consistently, and protect company assets more conscientiously. Data and experience suggest that superior financial results will become part of the equation as well. ■

> **"Achieving a consumer-grade level of excellence means setting employee expectations, not lagging behind them.**

rewards vs. rewards

One fast-growing social-media company used a combination of trade-off analysis and focus groups to understand its employees' reward preferences. A survey revealed that employees highly value having a matching provision in the retirement savings plan. This finding surprised management: Why would a bunch of millennials value something as chronologically distant (and, frankly, old-school) as a boost to their retirement savings?

To test the result, management conducted a series of focus groups to explore employees' underlying rationale. What they found surprised them at first but then made sense. Employees told them that, yes, they often don't think much about retirement when they consider their financial strategies. But many had watched their parents lose big in the stock market during the Great Recession or in the housing-market crash. Hence, many Generation Y employees highly value a robust 401(k) plan. As one employee said, "Saving for retirement is the one thing my parents tell me that I actually listen to."

When employees are asked to list the programs most important to them, they tend to highly rank prominent reward elements that include stock grants, incentive compensation and mobility. But when they are asked to take a dollar invested in one program and move it to a more appealing program, interesting results emerge. People in some segments tend to place high value on such security-oriented programs as base salary and retirement and healthcare benefits. Others go straight for lifestyle-related benefits and career-development opportunities. Knowing who falls into each group enables leaders to make high-impact program changes to boost employee engagement, retention, and performance.

Another company surveyed employees to determine their reward preferences; in a follow-up survey, they tested potential improvements and reductions to a broad set of reward elements, ranging from base pay to healthcare benefits and learning and career-development opportunities. Not surprisingly, employees saw increases to base pay and larger stock grants as adding value. More interesting: Employees perceived opportunities for additional training to be almost as valuable as incremental stock, though the company can provide that additional training for less than 10 percent of the cost of the larger stock grants: $600,000 for twenty additional training hours per year, compared with $6.5 million for stock-grant increases of 20 percent.

Had leaders been interested in reducing overall reward cost, they could have compared how employees perceived a potential increase in their medical-insurance premiums with how they would react to a possible increase in their out-of-pocket medical costs. In this employee group, those two changes would reduce perceived value by about the same amount. But increasing premiums would save the company $2.2 million—almost 50 percent more than the $1.5 million the company could save by increasing employees' out-of-pocket costs.

—J.M.B. and T.O.D.

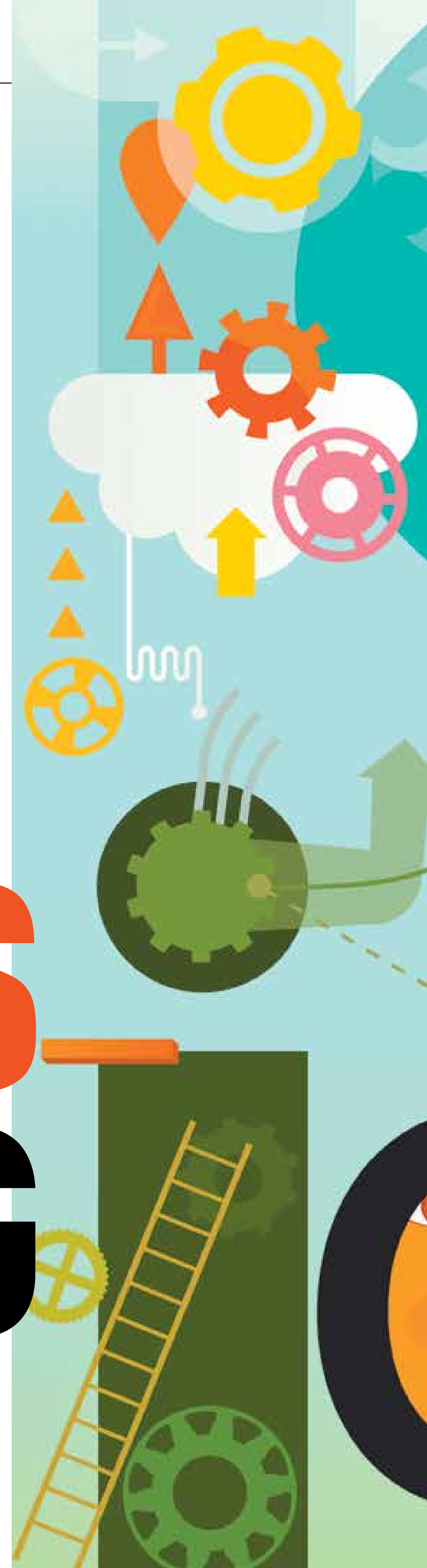
■ MATTHEW BUDMAN is editor-in-chief of *TCB Review*.

FOR MORE THAN TWO DECADES, IN ARTICLES (INCLUDING FOR THIS MAGAZINE) AND BOOKS, U.K. WRITING TEAM STUART CRAINER AND DES DEARLOVE HAVE CHRONICLED, ANALYZED, AND EXPLAINED THE WORLD OF BUSINESS THINKING. THEY'VE READ EVERY STRATEGY BOOK AND INTERVIEWED EVERY MANAGEMENT GURU.

From the beginning, Crainer and Dearlove tried to compile the most valuable and relevant ideas for senior executives without the time to sort through an entire bookshelf. And a dozen years ago, they formalized that process by creating Thinkers50, a biannual project identifying key thinkers around the world and ranking their influence and importance.

Consultants and B-school professors were interested right away—who wouldn't leap at the opportunity for wider recognition?—but only recently has Thinkers50 broken through to another level of interest and awareness. The 2013 awards drew a great deal of publicity, making clear the general interest in business thinking. And McGraw-Hill just published the first four Thinkers50 books—on management, strategy, leadership, and innovation—with two more in the works, on future thinkers and Indian thinkers. Crainer wryly describes the series as "kind of a guide to the best thinkers in each of those fields, with witty and insightful commentary by Des and me."

Crainer spoke via Skype from his U.K. home, shortly after the Thinkers50 gala awards ceremony in London.



WHAT'S THE BIG

STUART CRAINER SEES MORE INTEREST IN MANAGEMENT THINKING THAN EVER BEFORE.

BY MATTHEW BUDMAN

OF COURSE, YOU PREDICTED THERE WOULD BE INTEREST IN THE THINKERS50 IDEA—OTHERWISE YOU WOULDN'T HAVE TAKEN THE TIME TO LAUNCH IT. BUT DID YOU EVEN *HOPE* IT WOULD GET *SO* BIG?

We've been surprised. And the awards gala was as good as it could have been, really. We got people flying in from around the world, from California, just for the day. People from Japan, China, Turkey. Clay Christensen came.

YOU'VE BEEN WORKING DIRECTLY WITH TOP THINKERS FOR YEARS. BUT WERE YOU SURPRISED AT THE LEVEL OF INTEREST IN HIGH-LEVEL THINKING AMONG BUSINESSPEOPLE IN GENERAL?

Not really, because the nature of business thinking has changed. When you and I started writing about business, twenty years ago, all the business thinkers were geared around making corporations more effective, more efficient, improve performance. It was quite narrow. And over the years, that's changed; now the scope of business thinking is much broader. Thinkers have moved from improving organizational effectiveness to tackling some of the biggest issues facing mankind.

Clay Christensen is looking at education; Michael Porter has looked at health care. C.K. Prahalad started off looking at core competencies, talking about strategy and co-creation and innovation, and then moved on to the fortune at the bottom of the pyramid. The issues these people are talking about are hugely important—and global.

WHY THE SHIFT?

There was a realization that if you apply organizational and managerial learning to big issues, you can actually make a difference. After all, a lot of the problems with big issues have to do with efficiency and organizational effectiveness. The biggest employer in the United Kingdom is the National Health Service; in fact, it's one of the biggest organizations in the world, after the Chinese Red Army, Indian Railways, and Walmart. We spend a fortune on it—billions and billions of pounds. And the issues with the Health Service are managerial: making a big organization efficient. Going after the problems wouldn't just increase shareholder returns—it would actually directly improve the lives of millions of people.

OF COURSE, MOST *READERS* ARE LOOKING TO GET THE SAME THING FROM BUSINESS BOOKS THEY ALWAYS HAVE, RIGHT?

Well, sure, that's still why managers buy books—they want that nugget of information, that slightly different perspective, in the hope that it gives them a competitive advantage. Managers read books because they think that little bit of information will get them ahead of the competition. There's nothing so practical as a good idea.

AT A TIME WHEN MANAGEMENT IDEAS ARE OFTEN COMPRESSED INTO 140 CHARACTERS AND A LINK, ARE PEOPLE TAKING THE TIME AND MAKING THE EFFORT TO READ AND DISCUSS AND ACT ON REALLY BIG IDEAS?

Well, some ideas can be compressed into a tweet. And some should probably stay there, shouldn't they? But the best thinkers can distill ideas down to a phrase or sentence that resonates with people. Think of *The Tipping Point*: It's a tweet-sized idea with, obviously, stories and information behind it. Vijay Govindarajan at Tuck is a serious thinker, but his phrase "reverse innovation" is simple and understandable while encapsulating an important idea.

Distilling things is part of the challenge. The best thinkers can actually do that. We meet lots of business-school academics who say that's dumbing down ideas, but really it's dumbing it *up*. That's the hard bit: making sense of a trend and compressing it into a compelling idea that people really understand. Clay Christensen talks about distilling his ideas into something a 12-year-old could understand. For these top thinkers, that's really important.

I remember filming interviews with C.K. Prahalad, who was a really great guy who wanted to change the world for the better. At the end of the interview, you always say to the cameraman, "How was that for you? Did you understand what I was talking about?" That was his measure of success—he didn't really care whether Des or I understood. He cared about the people operating the cameras, who weren't really his natural audience. And when we interviewed him, they always said yes, and they wanted his books afterward. That doesn't usually happen when you interview a business thinker. The best ones make that effort—they're capable of summing up an idea in few words. That's what connects with audiences.

GREAT THAT PEOPLE ARE BUYING AND READING AND EVEN UNDERSTANDING BUSINESS BOOKS, BUT HOW MUCH ARE EXECUTIVES ACTUALLY USING THEORY? HOW OFTEN DO YOU GET THE SENSE THAT A CEO RETURNS FROM A BUSINESS TRIP AND SAYS, "I JUST FINISHED *BLUE OCEAN STRATEGY*, AND WE NEED TO CHANGE EVERYTHING WE'RE DOING"?

Well, that book sold two million copies—it's probably the biggest serious thought-leadership seller over the last few years—and it was criticized initially for being rearview-mirror strategy. But there are all sorts of tools in there that companies really do use.

"There's a lot of fashion consciousness—people want to parrot the leading-edge thinkers.

People leading organizations have an enormous appetite for these things, and there comes a point when it's difficult to avoid ideas; certain ideas build momentum. Senior businesspeople *had* to understand the idea of blue-ocean strategy. Navi Radjou's work has a huge amount of momentum behind it; if you're interested in becoming more innovative or in understanding how Indian companies work, he's important to read. And I believe people are reading him. It'd be worrisome if they weren't interested in new ideas. What's the alternative? Companies *have* to be open to the latest thinking.

Now, sure, there's a lot of lip service. You hear CEOs casually talking about disrupting their markets and disruptive innovation, when in reality they're not disrupting anything. But at least they know that's what they *should* be thinking of. There's a lot of fashion consciousness—people want to parrot the leading-edge thinkers.

HOW MANY OF THOSE THINKERS ARE COMING FROM OVERSEAS?

A lot of ideas today have their sources in India, and people are definitely trying to learn how Indian businesses approach things. I suppose the same thing happened with Japanese businesses in the 1980s, when we all sought to learn from the Japanese. People's appetite to learn from different cultures and markets is quite encouraging.

The book that started the business-book market was *In Search of Excellence*, which looked at American companies and extolled the virtues of American companies doing interesting things; that seemed like good news at a time when everyone felt under threat from the Japanese. Books now are much more wide-ranging, and I think that's a good thing—if you look at best-sellers in America, they all have global examples.

And, of course, not all business thinking is aimed at American audiences. If you go to Germany, there's an Austrian named Fredmund Malik who's their man on leadership; every manager in Germany has read Malik's books on leadership. Within all these different countries, there are regional gurus whom you've never heard of. There are people in the U.K. who make a good living giving talks on business and have a message and shtick that goes down well here but don't do anything outside the region. On the Thinkers50 list, we feature people like Kjell Nordström from Sweden, who's hugely popular in Scandinavia and Russia and the Baltic countries but is unknown in America.

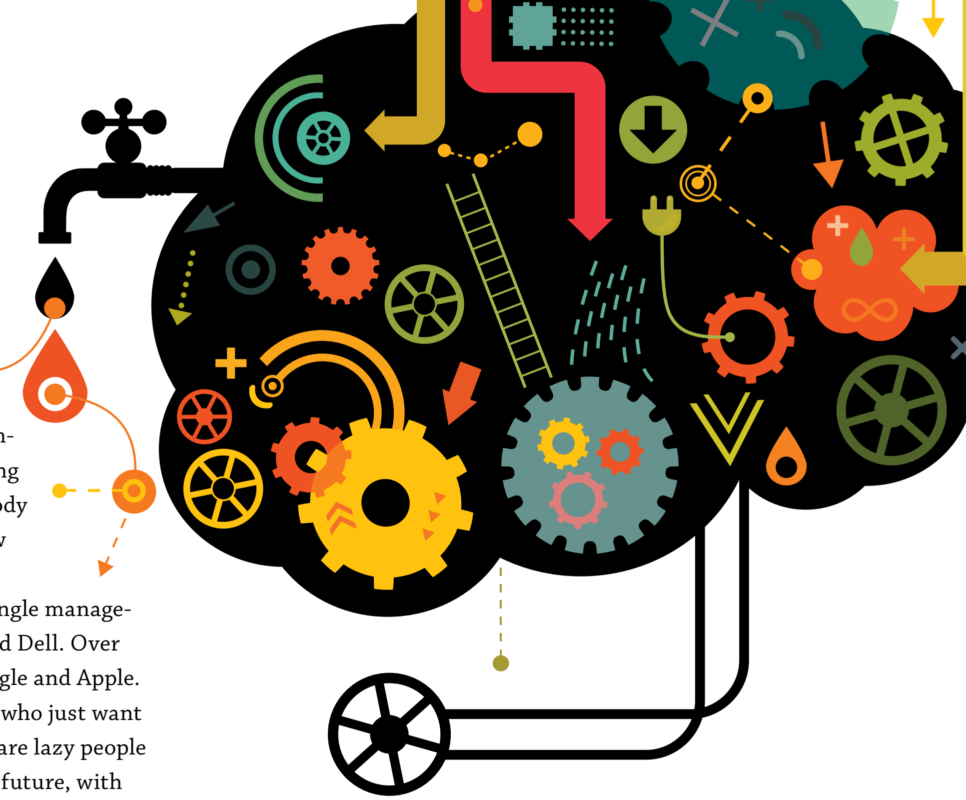
Interesting that on the list this time are a lot of Canadians: Don Tapscott, Roger Martin, Richard Florida, Syd Finkelstein. The clusters used to be at Harvard Business School, Stanford, and not many other places. Now they're more freewheeling: There's a young generation of interesting thinkers at INSEAD in France and at IE in Madrid.

I know one CEO who bought everybody in his company a copy of Ricardo Semler's book *Maverick*—even now, people who join the company get a copy, even though the book came out twenty years ago—because that's the kind of company he wants to create. It resonates.

Des went to a cabinet meeting in Asia, and they all had copies of a book by a business guru—and they were working on putting the ideas into practice. For better or worse, these books are having an impact on how people manage. Of course, it's dangerous as well to buy one person's take on leadership or management wholesale and run your business according to somebody else's book, but fortunately, people tend, magpie-like, to pick one idea from here, one idea from there.

The biggest business-book markets are emerging economies, because they're hungry for the knowledge to make their organizations efficient. So business books sell in China, in India; we did some work in Romania, and it was incredible—hugely educated audience, they all spoke perfect English, and they all devoured business books. They wanted Malcolm Gladwell; they wanted Daniel Goleman.

IN TERMS OF PRACTICAL USAGE, HOW MANY STEPS ARE THERE BETWEEN FORTUNE 500 CORNER OFFICES AND, SAY, NAVI RADJOU'S *HBR* BLOG POSTS?



ALONG WITH PEOPLE FROM DIFFERENT PLACES, ARE YOU SEEING MORE INTEREST IN UNUSUAL CASE STUDIES AND RESEARCH?

The appetite for coming up with companies in strange places doing really innovative things is much greater than it used to be. If there's a company in Sichuan Province that's doing something wildly interesting, the chances are that somebody will write about it and research it and interview people there in the relatively near future.

There was a time in the 1990s when every single management article featured ABB, General Electric, and Dell. Over the last decade, everyone has talked about Google and Apple. And of course, there will always be researchers who just want to do another take on Google and Apple; there are lazy people in all fields. But I think what we will see in the future, with the changing shape of business education, is that business researchers will *have* to get out there. That will be their job.

HOW MANY OF THESE NEW IDEAS—BREAKTHROUGH AND OTHERWISE—ARE JUST THE SAME OLD THING, WITH NEW CASE STUDIES?

Ideas come and go, and some come around again; they tend to build on each other and be rephrased and repackaged and refreshed. Everyone talks about innovation now, but years ago it was called something else. There's a circularity to it. Peter Drucker was talking about knowledge management in the late 1960s, and we're still dealing with how to manage knowledge workers—look at *Clever*, by Rob Goffee and Gareth Jones of London Business School. Quality was big in the 1980s, was still around for a bit of the '90s, and then disappeared, but quality is fairly timeless, so on our list is Subir Chowdhury, who talks about quality. These issues are being revisited all the time.

And it's related to the economic situation: When things are tough, the emphasis tends to be on the hard stuff, so in the 1990s we had reengineering. When things are better, the soft stuff, like leadership, has a renaissance.

THERE IS GENUINELY NEW THINKING, THOUGH. I HAD NEVER HEARD OF THE CIRCULAR ECONOMY, WHICH WON THE THINKERS50 BREAKTHROUGH IDEA AWARD FOR 2013.

Nor had I, until recently. It's a brilliant idea about how much money we could save by reducing waste, such as converting food waste to energy. I interviewed Ellen MacArthur, who's very famous in the U.K. and in France for sailing around the world—she held the world record for solo circumnavigation. An inspiring woman, and now she's championing the concept of the circular economy. I asked her where the idea came from, and she said, "Actually, it was China's last five-year plan—it mentions the circular economy," as well as the "cradle-to-cradle" idea that comes out of architecture.

There's one U.K. carpet company that has bought into the cradle-to-cradle idea and is using old carpets to make new ones, with no diminishment in quality. Tens of thousands of carpets are thrown into landfills in the U.K. every year, and this gets around that problem.

WITH THE GLOBAL SOLUTIONS AWARD, YOU LOOK TO RECOGNIZE "THE THINKER WHOSE IDEAS HAVE HAD THE BIGGEST IMPACT IN TACKLING SOME OF THE WORLD'S MOST INTRACTABLE PROBLEMS." DO YOU REALLY TRY TO MEASURE IMPACT?

To some extent. It's hard to quantify, of course. We look for people with practical ambition and ideas that have an impact. Don Tapscott won the award this year, and his stuff is all about bringing networks of people together. It's powerful and ambitious and trying to change the world for the better.

There's been a lot of research at business schools in the last fifty years that hasn't been grounded in having an impact; it's been research for its own sake. I think the tide is turning: Managers want research that has relevance; they want to know what to do with it, how it helps them run their businesses, how it gives them new insights.

THERE'S A NOTICEABLE DEARTH OF ACCOUNTING PROFESSORS ON THE LIST.

That's our inherent prejudice, I think.

> “People will emerge from unlikely and unusual places with great stories and interesting takes on business. Managers in the West would be foolish to ignore them.

ARE YOU CONFIDENT THAT BUSINESS THINKERS ARE KEEPING UP WITH, AND CAN HELP MITIGATE, THE CHALLENGES THAT COMPANIES TODAY FACE?

Their ability to keep up to date is pretty impressive. Again, managers are very fashion-conscious, things are changing very quickly, and if you're talking about old technology or appear out of date, managers give you pretty short shrift. If you appear before a group of managers and give a presentation based on a best practice of GE under Jack Welch, they're not going to be very impressed. But if you have an insight into what the Tata Group or Infosys is doing different, they're going to be interested.

I'M CURIOUS: CAN A BUSINESS THINKER TODAY BE A PURE WRITER AND RESEARCHER, OR DOES SHE HAVE TO BE A POLISHED KEYNOTE SPEAKER AS WELL?

Most of these people know that they need to get out there and sell their ideas. There aren't many people on the Thinkers50 list who are poor presenters. In the past you could stay in your office, but that's part of the job these days. Take Richard D'Aveni, a strategy guy who came up with the term *hypercompetition*. Richard is a really serious intellectual, but in the classroom he's brilliant. He brings in *The Godfather*; he's very interactive.

AS A FACULTY SPOUSE, I KNOW ANY NUMBER OF ACADEMICS WHO PREFER TO BE AS PRIVATE AS POSSIBLE, WHO HATE THE WHOLE IDEA OF SELLING THEMSELVES AND TWEETING AND BUILDING A PUBLIC BRAND. BUT LOOKING AT VIDEO OF THE THINKERS50 AWARDS CEREMONY IN LONDON, I WONDER WHETHER THAT WOULD CHANGE IF THERE WAS THAT KIND OF PUBLIC RECOGNITION INVOLVED FOR, SAY, FRENCH HISTORIANS.

I think getting out there and resonating with audiences is part of the job these days. And a lot of people actually come alive with a group—Tom Peters is really a shy guy face to face, but put him in front of an audience and he's evangelical.

Like so many other fields, business thinking has traditionally been dominated by men, and of course you want to balance Thinkers50 as much as possible. It must be something of a relief to realize that there are so many top women now that you don't have to artificially tweak rankings or anything else.

It used to be pretty much just Rosabeth Moss Kanter. But the faculty at major business schools has changed over the last twenty years, and our list is now massively more diverse in terms of nationality and gender. Our first female Chinese guru is on the list. It's all to be expected—that's progress.

The stereotype is that women excel at the soft side. But I don't think that's necessarily true—Rita McGrath won our strategy award, which is one of the harder intellectual subjects. And Herminia Ibarra is bringing analytical rigor to the leadership field. Plus, in the traditionally softer areas, look at someone like Stewart Friedman, who's doing really interesting work on diversity. So I don't think the divide still exists.

PRESUMABLY YOU ANTICIPATE THE GENERAL TREND CONTINUING AND BUSINESS THINKING BECOMING INCREASINGLY DIVERSE. WHERE WILL TOMORROW'S THINKERS COME FROM?

Tomorrow's thinkers will come from China. Initially, people are looking to practitioners in China—we feature two Chinese thinkers on the new Thinkers50 list, and they're both practitioners—but in the next few years, a generation of Chinese thinkers on business will emerge. There are new frontiers opening all the time.

Where is the most interesting business practice going to be in the next twenty or thirty years? I would guess it's not going to be in the industrialized Western world. Increasingly we get emails from people introducing us to thinkers from Latin America, South America, China, and India. I think there's going to be a new generation of best practice and interesting practice.

Or maybe Russia. I don't know of any Russian management thinkers, but I would guess there's going to be one.

SO YOU'RE LOOKING FOR THE REGIONAL GURUS WHO WILL BREAK THROUGH.

Right—the search is on for the North Korean business guru. People will emerge from unlikely and unusual places with great stories and interesting takes on business. Managers in the West would be foolish to ignore them. It's easy to go with received wisdom. And it's not only about regions—it's about other disciplines. Management has been very good about taking good ideas from sociology, psychology, literature—wherever they find them. How is neuroscience going to affect how managers manage? That seems like a rich area.

The chances of a manager knowing about all these ideas are not great. But they need just one idea. Some companies put a lot of importance on following the world of ideas. I was talking to a guy who runs an innovation center at a multinational, and his job is to keep up to date on all the people writing about innovation, all the weird and wacky ideas, because just one of those ideas could make a lot of difference. Ideas are a source of differentiation. ■

WE ARE ALL chief risk officers NOW

PRACTICALLY EVERYONE'S JOB TODAY REQUIRES MANAGING RISK IN SOME FORM. ARE YOU PREPARED?

BY JOHN BUCHANAN

RISK MANAGEMENT USED TO BE SOMEONE ELSE'S JOB. AND THAT SOMEONE ELSE WAS OFTEN HEAD OF SECURITY—THE GUY WHO WORRIED ABOUT FIRE DRILLS AND INDUSTRIAL ESPIONAGE, WHO POSTED WARNINGS ABOUT BUSINESS TRIPS TO DUBIOUS COUNTRIES, WHO RAN CREDIT CHECKS ON EXECUTIVE CANDIDATES. IN MANY COMPANIES, THE "RISK MANAGER" WAS REALLY THE PERSON WHO BOUGHT VARIOUS KINDS OF INSURANCE, TO MAKE SURE THAT IF ANYTHING WENT WRONG, SOMEBODY ELSE PAID UP.

But as the business world has become less stable and more complex, risk has meant more and more, especially since the financial crisis of 2008, largely caused by outsized risks that too few people took seriously enough. The discipline itself has evolved, along with the list of those responsible for being watchdogs. And now you're on that list, along with almost every other manager in your organization.

"What the financial crisis brought to light is that risk management needs to be looked at more holistically, so that you're looking at all aspects of a business and assessing risk in all of the areas where it exists," says Guy Gioino, VP and senior risk

JOHN BUCHANAN is a journalist, author, and screenwriter. He lives in Cocoa Beach, Fla. His last article for the magazine was "Warning Signs," in the Summer 2013 issue.

> People whose responsibilities never touched on risk now must consider what happens if and when things go wrong.

risk

consultant for insurance broker HUB International. “That means a much larger context than just hazard or peril.”

And that larger context, says *Winning with Risk Management* author Russell Walker, includes new frontiers of concern such as funding or liquidity risk, operational risk, regulatory risk, employee action risk such as whistleblowers or intellectual-property thieves, and customer and victim risk. Also falling under the risk umbrella: growing concerns about the availability and cost of natural resources—even, in some parts of the world, water.

Omaha, Neb.-based financial consultant and actuary Max Rudolph has conducted a survey of the top corporate risk concerns for the last seven years. This year, the big four were financial volatility, a blowup in asset prices, cyber security/data risk, and the falling value of the U.S. dollar. (Three that declined this year were oil price shock, failed or failing states, and regional conflicts.) Such findings indicate that risk concerns are now global and often external—and that many key areas of risk are essentially beyond any company’s ability to control. Related to that, Rudolph says, is his most acute personal concern—what he calls “concentration risk,” or placing all of one’s eggs in a single basket, such as one banking relationship or major supplier.

But while the field of corporate risk management is expanding, taking on a much broader set of considerations, the biggest change is one of mindset: People whose responsibilities never touched on risk now must consider what happens if and when things go wrong, incorporating elements of scenario planning into their daily lives.

In redefining how they assess, manage, and mitigate risk, companies are making all their people chief risk officers, regardless of whose business card carries that title.

WHAT KEEPS YOU UP AT NIGHT?

Carl Spetzler, chairman and CEO of Strategic Decisions Group and director of Stanford University’s Strategic Decision and Risk Management certificate program, warns that the traditional perception of risk management has effectively been rendered obsolete. “What people don’t get is that, in fact, most of the risk that needs to be managed isn’t the low-probability, high-consequence stuff,” he says. “It’s actually the more likely stuff that’s in the middle.”

About 70 percent of the major risks that companies face today come from core value drivers, Spetzler says. “And most risk managers don’t typically worry about those things, because they are considered normal parts of the business. But the potential combination of a couple of those key drivers going the wrong way can end up tanking a business. So to me, the big challenge is how to combine those core business risks with the traditional low-probability, high-consequence events.”

Rudolph cites yet another example of how the discipline of risk management is changing. Smart companies now think in broader terms of enterprise risk management (ERM), a more holistic approach than traditional risk management, which by definition is more narrowly defined. Forward-thinking companies now use a more sophisticated type of ERM as a tool

MORE THAN JUST COMMON SENSE

ELLEN HEXTER, SENIOR ADVISOR, ENTERPRISE RISK MANAGEMENT AT THE CONFERENCE BOARD, EXPLAINS WHY PROCESS IS KEY.

How many companies look at risk primarily from a CYA perspective?

Most companies do. It's most common that even if companies have an established enterprise-risk-management practice, they just try to check the boxes and please the board rather than embedding good risk practices in the businesses.

Is risk management largely about changing attitudes toward decision-making?

Yes, as well as thinking about and being aware of culture: *What is the risk culture of our company?* People may have robust risk-management practices embedded into operations, and they may understand the risks of their particular jobs and businesses, but some companies themselves don't take enough risk. They're leaving money on the table.

Is it a tough mindset shift for people to think of risk in terms of opportunity rather than just downsides?

That's a big problem, and it runs the entire gamut of an organization. Some years ago, we did a couple of rounds of research with directors, and they could not get their minds around risk-as-opportunity.

What are the opportunities that people have trouble seeing?

It could be moving into new markets. Let's say we want to grow our business in countries in Africa where we've never been. There are both risks and opportunities there: It could be a huge market, but there could be substantial political risk; we might be unable to get the right people; maybe there's a lot of corruption in the country. Weighing those tradeoffs gets us to a decision on whether to accept the risks and move forward or pass and instead move into, say, Indonesia—where there are *also* risks and opportunities, of course. It's looking at the whole picture.

Does adding risk assessment to decision-making slow everything down, the way that we require environmental impact assessments before big mining projects? Does it create bottlenecks?

It very well might, and that's part of what creates resistance to embracing and adopting enterprise risk management. But what you want is everybody thinking as a risk manager and a business owner: What are the pluses and minuses here? If you can think about strategic planning and operationalize some of the questions you would ask about developing strategy, and think about it in terms of risk as well, it doesn't have to slow anything down.

In research we did a while back, people said they saw the most benefit to using enterprise-risk-management tools and practices in their mergers-and-acquisitions business. If a company is looking to grow 10 percent, and you can generate only 6 percent organic growth, the other 4 percent has to come from acquisitions or licensing or some other kind of business. And so people don't assess risks of acquisitions as carefully as they should.

Why does a company need a formal risk-management process to weigh the pluses and minuses of possible M&A deals?

Because everybody can fall in love with deals and overpay for acquisitions. As with many things, cognitive dissonance comes into play; we see only the good side of things. With a structured risk-assessment process, both within a business and higher up the chain, senior executives will ask the tough questions they need to. In our research, the companies with ERM processes in place told us that they walked away from more deals and got better pricing on the deals they pursued, because they had a better sense of the value.

To someone outside the risk-management area, looking at pluses and minuses, especially for major deals, just seems like common sense. Is the problem that executives make too many decisions without using common sense or judgment?

Clearly, yes. That cycle stops only when a company goes belly-up or we have a financial crisis, and then people say, "Hey, maybe we shouldn't be granting mortgages to people who will never be able to pay them back." There's a cycle of stupidity. You see it in plenty of industries that follow a boom-and-bust cycle. They overdevelop real estate or natural resources, and then the markets change, they have to pull back, and some players get gobbled up and/or go out of business, and others survive.

In the main, there are plenty of checks and balances within most businesses so that they can survive individuals lacking common sense, and still succeed.

CONTINUED

You've talked about how risk is a governance issue—transparency, tone at the top, and so on. Are boards asking for more information about risk than they used to? Are they trying to exercise more oversight in that area?

They are. Part of the problem on the board side is that they often aren't asking for the right information and, in some cases, don't even know what they should be asking for. The New York Stock Exchange listing rules that were put into effect in the early 2000s said that companies' audit committees should be in charge of risk management. That's fine, but risk management at the board level ought to be primarily about strategy. Usually it's not a compliance failure that brings down a company—it's making wrong strategic decisions. And that's the full board's job. So often boards, because they're focused on financial statements and compliance issues—things that are easily quantifiable—get lost in the weeds when it comes to squishier risks.

Speaking of squishier risks, do you get the sense that people—boards and executives—understand the risks of cybersecurity issues?

From what I hear, it is the number-one issue for boards of directors these days. I think everybody understands how massive this issue is, to the point where it's almost paralyzing. So nearly every board is asking for more information on cybersecurity. But there's not much understanding of what companies can really do to address it. People feel that there's nothing they can do—and that's not true. There are steps that companies can take to manage the risk, though it will never go down to zero, at least not in my lifetime.

—MATTHEW BUDMAN

for making better strategic decisions, Rudolph says. And that now encompasses the upside benefits of risk as well as the traditional downside. Finding the right balance between the two extremes facilitates improved strategic decision-making and a more dynamic enterprise.

Brian Schwartz, governance, risk, and compliance leader at PricewaterhouseCoopers' risk-assurance practice in Washington, D.C., agrees with that assessment. "Many organizations," he says, "are now starting to move away from the sole focus on, 'What are my top ten or fifteen risks? Let me assess those each year and put together a risk register that defines those risks.' They're moving away from looking at enterprise risk only as an assessment process, and they're getting more into looking at how the risks they care about align with strategy, how they align with specific performance drivers that fuel the business. And they're going so far beyond a traditional enterprise risk assessment that they are really monitoring and managing risks from end to end, in a much more holistic manner."

That trend is a healthy one, Schwartz says, because it allows companies to assess and justify the risks that matter most to their bottom-line success and long-term well-being. "And if you can protect the downside by doing that, but also use it in some way to better enable business performance, then you're getting the best of both worlds."

Meanwhile, cautions Walker, associate professor at the Kellogg School of Management at Northwestern University, there is another trend afoot in the wake of the 2008 financial crisis: a clear understanding that it is no longer sufficient, in the event of a risk-related crisis, for executives to say, "We didn't know. We didn't project. We didn't anticipate." None of those old *mea culpas* will serve as survival mantras in the post-crisis environment. And, Walker says, although it's impossible for anyone to be perfectly prepared, there is a new expectation of excellence when it comes to risk management. "And that often means looking inward rather than outward," he says.

But at the same time, he adds, corporate thinking—and vigilance—have expanded well beyond the traditional parameters of risk management, or the things that can reasonably realistically be expected to go wrong in your company or your industry, to include the many more things that can go wrong in an increasingly complex global business world, such as cyber attacks or intellectual-property theft by a criminal ring or even a foreign government such as China.

BREEDING MID-LEVEL WATCHDOGS

Facing a rising tide of risks and potential consequences—some of them existential today—more and more companies are realizing and embracing the reality that effective risk management can no longer be a specialized domain overseen by traditional risk managers or even C-suite executives. Proper due diligence now requires the attention of mid-level executives and managers, especially those responsible for fundamental processes such as manufacturing, customer service, or information technology.

Despite such a realization, however, successful motivation demands a careful, comprehensive focus, explains Jim Prieur, former CEO of CNO Financial and a current member of ManulifeFinancial's board. "For a lot of mid-level managers, including those coming up the ladder, the focus has always been on profitability," he says. "Most mid-level managers have probably not grown up in an environment where operational risk or regulatory risk was a big concern. So even though they're closest to where the company's work is actually being

"More companies are creating tools such as anonymous hot lines to tip off management about prospective problems.

done, so to speak, they've probably never really thought about things like operational or reputational risks as being risks. And in the past, those managers could put aside issues related to risk, because someone else was responsible for that and they could say, 'I don't have to worry about that. My responsibility is running my little piece of the division in the Midwest.'"

As a result, Prieur says, a change in day-to-day thinking among mid-level managers is a critical key to a safer future. "Today," he says, "everyone in the company has to be thinking about risk."

Gioino concurs that in today's unpredictable world, everyone within an organization should have responsibility for risk management within her specific function. The notion is still widespread, he says, that risk management is the "risk-management department's job," or top management's job, which displaces responsibility and compromises the effectiveness of a company's control of risk. It also erodes what should be a first line of defense based on operational awareness, he says.

By definition, if risk management is spread through a company's middle levels, a problem can more likely be identified and resolved before it reaches the CEO's desk and is by then a major problem—or even a full-blown crisis. As a result of that growing awareness, Gioino says, more companies are making risk management a baseline expectation for mid-level managers and even rank-and-file employees.

In turn, more companies are creating tools such as anonymous hot lines for lower-level employees to use to tip off management about prospective problems. "And that's important, because some people are just not comfortable calling the attention of their immediate manager to a problem," Gioino says. "They're more comfortable divulging information in an anonymous way that management can respond to. But the idea companies are trying to get across now is the same one that's symbolized in the slogan of the MTA in New York City" when it comes to suspicious behavior: "If you see something, say something."

However, Walker says, that is often more easily said than done. The truth is that in too many companies, based on entrenched cultures or weak codes of accountability, it is often tempting for a mid-level manager or lower level employee to say, "Let's disregard the problem. Let's wait until next quarter and see if things are different." As a result, the disregarded discovery can quickly spiral into a serious problem that the company has failed to diagnose.

The key distinction between companies that are likely to catch a problem early and ones that are not is a culture that values investigation and proactive reporting of problems. "And that really starts from the top," Walker says.

The important realization for top management and boards, Spetzler says, is that most real risk management is done by middle managers who run day-to-day operations of business units or line supervisors who oversee specific processes. "Risk management should be addressed at the line level of activity, because it's the line-level manager who is installing and overseeing the manufacturing or safety procedures," he says. "And paying attention to those kinds of things has not typically been what a risk manager pays attention to."

That means that the most effective way to achieve better risk management is to motivate those mid-level employees to pay sufficient attention to that responsibility. And the best way to do that, says Daniel Draz, principal of Fraud Solutions, which specializes in intellectual-property theft and social-media exposure, is for a culture of responsibility to be promoted by top management and the board. "It's an issue of awareness and whether that message about the types of risk the company faces and the responsibility for them is being pushed down to the middle levels of the company," Draz says.

C-suite executives are indeed responsible for sending the right message, Schwartz says. "But it's the people who own the processes and therefore own the risks who have to manage those risks, because they're embedded in everything they do," he says. "And sometimes people don't realize they're helping manage risk just by doing their jobs properly every day."

Because of the importance of mid-level vigilance, Schwartz says, more companies are integrating risk-management responsibilities into annual reviews and compensation reviews. "Companies now want all of their employees to be good risk managers," he says. "So we are now seeing more companies do things like building that into their scorecarding process. And I'm seeing companies put more risk-management emphasis on compensation and rewards. That has probably been true in some cases for as long as ten years, but it has become more and more common over the last three of four."

PREPAREDNESS IS THE KEY

Another post-financial-crisis evolution of risk management has been a bigger focus on preparedness, based on whether a company has the proper infrastructure, committed resources, and management systems in place to weather a major storm.

The most important practical consideration, Gioino says, is resiliency—or whether a company has in place a survival system that can withstand the worst scenario it can realistically imagine. "No company can eliminate all risks. But you can equip yourself adequately for whatever you think could possibly happen. And that is the kind of consideration that everybody is starting to look at now."

Allyson Heumann, a Chicago-based independent risk manager who specializes in health care and financial services, agrees that preparedness is the new gold standard in risk management. Her concern is that too many companies still look at risk from a limited perspective. And as a result, she says, they are not really prepared for a major event.

Her other concern is that many companies do not treat complacency or a sense of the status quo—a mentality she calls "stagnation"—as a significant category of risk. Complacency, she preaches, is the direct opposite of preparedness. "The danger in being complacent or stagnant is that you're not being proactive," Heumann says. "And the only way to avoid the negative impact of risk is to be proactive. The other issue I talk to clients about is that if you are not proactive, you are reactive. And if you are reactive, you are not as well prepared to deal with an event as you would be if you were proactive."

Draz seconds Heumann's opinion that complacency is, in and of itself, a significant risk in today's corporate arena. "Unawareness, or just having your head stuck in the mud and failing to realize the things that can happen to you, those are all valid areas of risk today," he says.

Alan Brill, senior managing director of global security consultancy Kroll Advisory Solutions, agrees that preparedness is another new frontier in the quest for better risk management.

He frequently runs tabletop exercises for companies to assess and prepare for risk-related events. They focus on a range of potential scenarios that are considered the most likely threats for a particular company in a particular industry. “And the people that have done that tend to do far better when an incident occurs,” he says. “They are also better able to mitigate the damage done by that incident.”

BUCKETS OF RISK

Because the universe of risks companies face is expanding—and the discipline of risk management is changing—what was once a fairly commonly understood topic is now more abstract.

The Committee of Sponsoring Organizations of the Treadway Commission, known as COSO, which provides thought leadership on internal controls and enterprise risk management, has historically defined risk management as “the possibility of a negative impact of some kind—something going wrong,” Spetzler says. More recently, however, ISO 31000, originally published in November 2009, has redefined risk as more general uncertainty about achieving an objective, but also incorporating the upside. “That is a huge difference,” he says. “And not everyone gets that.”

The distinction between the older COSO definition and newer ISO definition is enormously important to the idea of strategic business decision-making, Spetzler says. “If you really say that risk equals uncertainty and includes upside as well as downside,” he says, “then you’re suddenly including all of the aspects of opportunity management as well as risk management.”

Russell Walker also offers a new way of looking at risk, which he separates into two types: One is risk that is based on the uncertainty of a process or outcome; the other is based on a system that is complicated. And instead of treating that as an engineering consideration, some companies now treat it as a risk. “You can control the latter,” Walker says. “You can control an internal process.”

And modern management systems such as Six Sigma have helped root out misunderstandings or defang the complexities

Risk

of process deviations in order to reduce the risk of negative outcomes. "That is a very scientific approach," Walker says.

In the first example, however—general uncertainty about a process or outcome—an organization is trying to predict the future. "It's like trying to predict the weather," Walker says. "You might be pretty good at doing that. But you can never be certain how cold or how wet it will be next month. What you can do is prepare the organization for those kinds of outcomes. But the tool is preparation, whereas in the sphere of reducing complexity, the tool is deploying resources to unravel that complexity."

As a result of such increasingly complicated considerations, the very definition of risk management as a broadly understood term is evolving. "I think it has been pretty broadly defined for a while now," Schwartz says. "Now you think in terms of financial risks, operational risks, strategic risks,

WHERE HIGH-STAKES DECISION-MAKING GOES WRONG

BY MICHAEL C. MANKINS

At some point, most executive teams will make a bet-the-company decision. Sometimes they'll make the right one and will be handsomely rewarded. Southwest's decision in 2007 to hedge against increases in the price of jet fuel proved remarkably prescient. But sometimes the big decision will go horribly wrong. In 2007, AOL and Time Warner finally pulled the plug on the $350 billion 2001 merger that Time Warner chiefs Jeff Bewkes and Gerald Levin later called "the biggest mistake in corporate history."

In the popular mind, there's a lot of luck and inspired leadership behind successful choices such as Southwest's. But if you look closely, that really isn't true. The leadership teams at AOL and Time Warner were hardly boneheaded. To be sure, luck does play a role, but then many companies have enjoyed a quite remarkable run of it, far longer than you might expect if success really is all about luck.

I've been studying decision-making at the top for many years, and what I've found is that the truth is far more prosaic. Good decisions, like Southwest's, nearly always result from robust decision processes. Similarly, decisions that go wrong, such as Time Warner's, nearly always stem from procedural or organizational failures. In fact, when I and my colleagues at Bain & Co. conduct postmortems into decisions, we find that just five mistakes account for the vast majority of poor decisions:

An unrealistic search for silver-bullet solutions. Most business problems are complex. But many executives badly want a silver bullet—a simple action that will leapfrog the competition or supercharge an organization's performance in one fell swoop. One example is the corporate reorganization. Nearly half of CEOs reorganize their company in the first two years of their tenure. Many preside over multiple restructurings. Yet fewer than one-third of these moves produce any meaningful improvement in performance. Chrysler reorganized three times in the thirty-six months prior to its sale to Fiat. Each time, management claimed the reorganization would turn around the ailing automaker. Each time, no turnaround materialized.

So the next time someone asks, "Is there a simple solution to this problem?" be prepared to answer, "Probably not."

Failure to consider alternatives explicitly. Business is a game of choices, and you can't make good choices without good alternatives. But most organizations do not explicitly formulate and evaluate alternatives in making big decisions. Imagine what might have happened if the team at Time Warner had considered other alternatives for expanding into the online world: strategic partnerships, joint-venture arrangements, even accelerated development of the company's own capabilities. The act of formulating and evaluating compliance risks, reputational risks—all these 'buckets of risk.' Some of them are related to black swans; some are considered day-to-day risks. But I think the way that more and more companies think about risk now is in the ways they relate to overall performance. And those are now the ones companies care more about and invest more in monitoring and managing."

A related and emerging area of risk management is the interconnectivity of risks, Schwartz says. Risks that were once thought of and monitored as standalone categories are now being examined in terms of their connections to—and synergistic relationship with—one another. For example, he says, companies are more likely today to be pondering whether one type of risk event could trigger another, more serious variety—and if so, what can be done to mitigate that synergistic relationship and exacerbated danger? In turn, those connections are made more alarming by the ever-increasing complexity of global business.

In response, PwC is advising its clients to better integrate GRC considerations—governance, risk, and compliance activities—into a more comprehensive and sophisticated analysis of risk and potential consequences. That, Schwartz says, empowers companies to do a better job of mitigating risk while also maximizing performance and value.

And that is the future of the successful, healthy enterprises that will survive in a high-risk world.

However, the obvious challenge lies in making sure that executives and managers up and down the organizational chart—along with their rank-and-file foot soldiers—understand the new frontiers of risk and how to safely navigate them. Without an organizationwide commitment to be watchful for and vocal about discernible hazards, external or internal, virtually any company today could be in for a seismic event.

And in a global business arena that is increasingly unforgiving when it comes to missteps, the message is clear: Everyone—including you—now has to be a vigilant risk manager. ■

explicit alternatives invariably improves the quality of decision-making.

The next time someone recommends a course of action, ask two simple questions: "What alternatives did you consider and reject?" and, "Why?"

Too many people involved. Important decisions are hard to make in large groups. Sensitive issues don't get thoroughly discussed. Personalities interfere with reasoned argument. In fact, our research highlights the "Rule of 7": for every individual you add to a group beyond seven, decision effectiveness declines by 10 percent. The success of Apple Computer and Facebook stems in part from their highly streamlined decision-making models. At Ford Motor Co., the senior leadership team addresses the company's most important decisions in "special attention" meetings limited to a small group of executives.

The next time you receive a meeting request with more than fifteen invitees, ask yourself: "Are we really going to be able to make significant decisions in this forum?"

Failure to consider opportunity cost. The decision to start doing something new is only one form of high-stakes decision. Another—often with equally big consequences—is to keep doing something you're already doing. The decision not to shut down an uncompetitive product line or exit an unprofitable market can consume as much scarce management time and other resources as any merger. Yet few executives appreciate the opportunity cost associated with continuing with a losing venture. Blockbuster's failure to shut down its legacy bricks-and-mortar operations and shift attention to home delivery and digital downloading doomed the once-powerful retailer.

The next time you are contemplating maintaining a troubled operation, ask yourself: "Where else could we invest the resources that this business is consuming?"

Underestimating the challenges involved in execution and change management. The complexities associated with a big-stakes decision rarely end with the decision itself. Indeed, recent Bain research indicates that only 12 percent of large-scale changes are executed as intended. That's because change is hard—and the bigger the change, the bigger the risks. The recent launch of Healthcare.gov may be an example of underestimating implementation difficulties. While the risks associated with the website were predictable, they appear never to have been elevated to the level that demanded action. As a result, responsible officials didn't take the necessary precautions, and the website all but collapsed during the weeks following its launch.

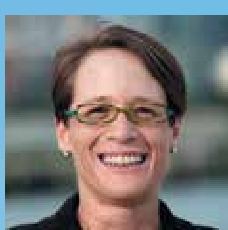
The next time you are thinking through a big-stakes decision ask yourself: "What happens first thing Monday morning? What behaviors will have to change?"

Big-stakes decisions are just that—big. When they go awry, it is typically because the organization has fallen victim to one or more of these failures. Avoiding them won't guarantee you success, but it will greatly increase the chance of a better decision.

■ MICHAEL C. MANKINS is a partner at Bain & Co. He is based in San Francisco and heads Bain's Organization Practice in the Americas. From Harvard Business Online.

WHO'S HOLD YOU ACCOUN

CHRISTINE BADER WANTS TO FILL COMPANIES WITH CORPORATE IDEALISTS.



"I don't believe that idealism and business acumen are mutually exclusive—in fact, I think quite the opposite." Christine Bader has spent her career at the intersection of the corporate and nonprofit worlds, aiming to instill responsibility in corporate practice while adding value.

She worked at BP for nine years, leaving in the wake of the 2005 Texas City explosion, as the company's progressive priorities were starting to shift, and before the Deepwater Horizon disaster. But throughout her tenure there, she writes, "my goal was to align the interests of the company and the community, not to compensate for or distract from wrongdoing."

Her hope now is to illuminate a path for idealistically minded people who want to make a real-world impact by helping companies run more smoothly, more efficiently, and for the benefit of both local communities and broader society. Her new book *The Evolution of a Corporate Idealist: When Girl Meets Oil* (Bibliomotion) is "meant to be a diary from myself and others of what it's really like, and what it feels like, to do this work."

Bader, a visiting scholar and lecturer at Columbia University and a human-rights adviser to BSR, spoke via Skype.

YOU DESCRIBE YOURSELF AS "PART OF A GLOBAL ARMY OF PEOPLE FIGHTING FOR BETTER SOCIAL AND ENVIRONMENTAL PRACTICES INSIDE MULTINATIONAL COMPANIES." WHY WOULD A COMPANY HIRE A SELF-DESCRIBED CORPORATE IDEALIST?

I would actually ask: How can you *not* want an army of corporate idealists inside your company? How can you *not* have people who care deeply about the company's impacts on the world, and about its stakeholders? People who care what we are doing in the world, and about our role in society? *Everybody* should be a corporate idealist. I hope that senior executives are the most idealistic of all.

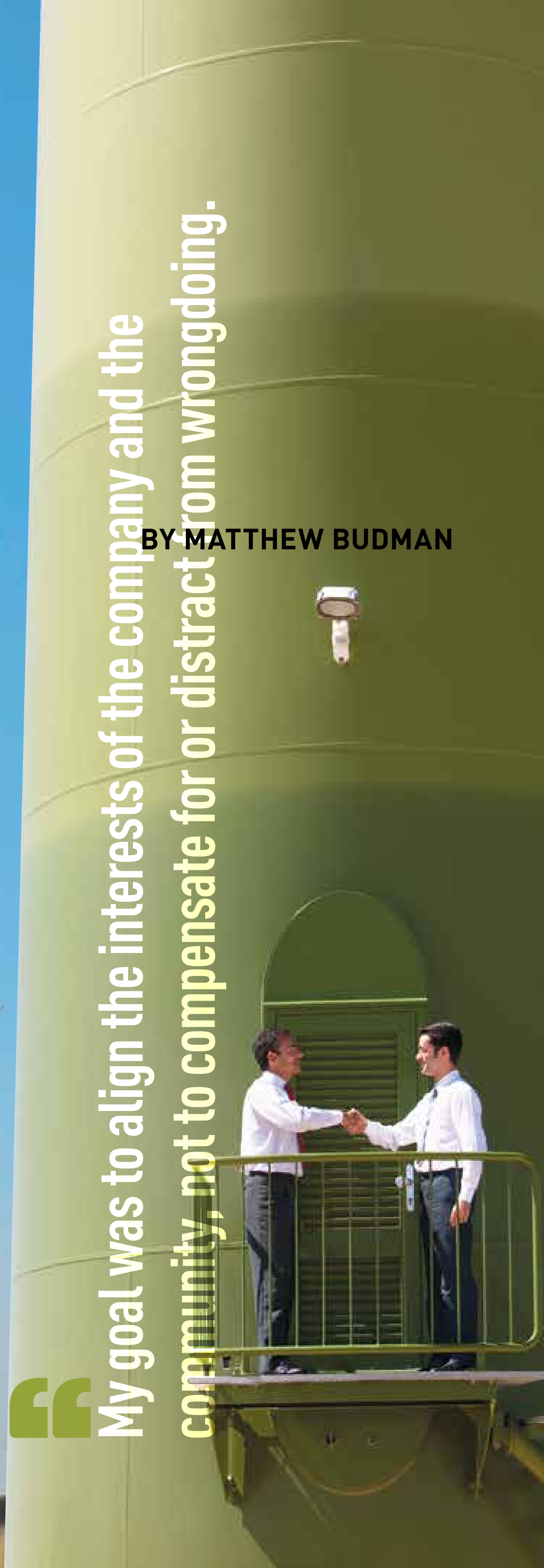
BEING A CORPORATE IDEALIST SOUNDS MARVELOUS—YOU GET THE BENEFITS OF BEING PART OF A FOR-PROFIT COMPANY WITHOUT FEELING AS THOUGH YOU'VE SOLD OUT.

Well, keep in mind that a company doesn't need someone who just wants

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

ING TABLE?

BY MATTHEW BUDMAN



“My goal was to align the interests of the company and the community, not to compensate for or distract from wrongdoing.

to be the in-house NGO. They need people with real skill sets. They need people who can translate the language and passion of idealism into things that the business can actually *do* and act on. Companies need idealism, but they also need people to get stuff done, who know how to turn the cranks and make the widgets and get the stuff out of the ground. A lot of people I talked to for the book discussed their role as translators—you're translating what external stakeholders demand into particular company functions and processes.

I asked one of my advocate friends whether she could ever work at a company, and she said, “I don't think that I could, because I couldn't stomach the feeling that I was complicit in a company's problems, even if I was trying to solve them.” Plenty of people don't want any part of the corporate world—they're happier working at, say, Amnesty International. And when people ask me, “I want to do good in the world—where should I go work?”, I have to tell them that it depends. Whether they end up in a company, in a nonprofit, or in government is deeply personal. We all have to find the setting in which we're going to thrive. And that might change over time.

WHEN MOST COMPANIES HIRE PEOPLE TO RUN CSR OR CORPORATE-CITIZENSHIP EFFORTS, ARE THEY EXPECTING THEM TO STOP AT ORGANIZING VOLUNTEER PROGRAMS?

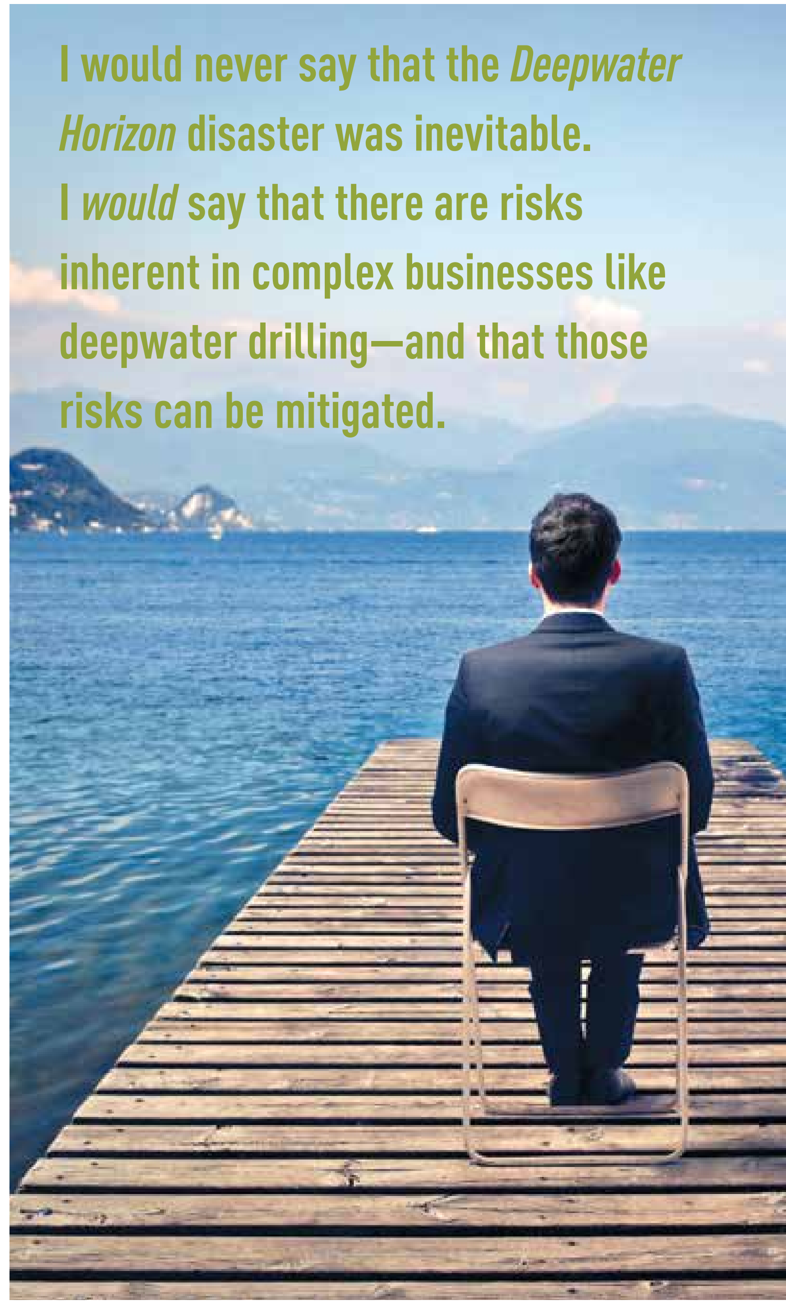
It depends on the company. People send me a lot of CSR job postings so I can share them with my networks, and I got one from a large financial-services firm that said "Manager, CSR," and I thought, *Great, they're going to hire somebody who's going to look more carefully at the risk level of their investments and make sure they don't undermine the global economy again* . . . and it turned out that the job was to manage their employee volunteerism program. Which is nice, but it's not the stuff that I care about.

People ask me, "Should I take this CSR job? Will I be doing real work, or will I just be ordering matching T-shirts for people to go paint a wall?" And what you have to do is step back and ask, *What are this company's ten or five or three greatest tensions with society, and is this job working on any of those? If it's a mining company, am I working on its carbon emissions, or on the impact the company has on nearby communities?* If you're not, maybe it's not a real CSR job.

OF COURSE, WHEN IT COMES TO COMPANY RESOURCES, THERE'S ALWAYS A BALANCE. DO IDEALISTS FIND THEMSELVES PRESSED TO MAKE "THE BUSINESS CASE" FOR ANY INITIATIVE OR CHANGE?

Sure, and I have mixed feelings about that. Every business needs to do cost-benefit analyses and weigh risks and opportunities. I get that. But sometimes pushing the business case can go too far down that road. If my company is thinking about investing in a conflict zone, I might make the case that we need to hire thirty community liaison officers and set aside *this* much money for partnerships with international NGOs; that might mitigate some of the risks—for instance, that we might be complicit in genocide. But if I present it as an ROI calculation, I might end up in a conversation in which I'm asked, "What if we hired only ten community liaison officers—would that mean there's only a 50 percent chance that we'd be complicit in genocide?" At some point, it's silly, and it's OK to point that out. The business case is not gospel—it's one way we make decisions. It's a tool, not a commandment.

I would never say that the *Deepwater Horizon* disaster was inevitable. I *would* say that there are risks inherent in complex businesses like deepwater drilling—and that those risks can be mitigated.



YOU SPENT NINE YEARS AT BP, WHERE YOU WERE, AS YOU PUT IT, "LIVING THE CLICHÉ OF DOING WELL AND DOING GOOD." THEN, YOU SAY, "BIG OIL BROKE MY HEART." THERE WERE ACCIDENTS AND SCANDALS, AND THE COMPANY WALKED BACK ITS PROGRESSIVE STANCES. IN RETROSPECT, WAS IT INEVITABLE THAT BP WAS UNABLE TO LIVE UP TO ITS RHETORIC?

I wouldn't say it was inevitable; I would never say that the *Deepwater Horizon* disaster was inevitable. I *would* say that there are risks inherent in complex businesses like deepwater drilling—and that those risks can be mitigated. I do not think this is a case for not taking bold stances. We need bold stances; we need bold leadership. When Lord Browne set the ambitious targets to reduce the company's greenhouse-gas emissions, they were beyond what a lot of people thought was

BEYOND PRODUCT SAFETY

BY ROB SHIMP

I spent twenty-eight years as a manager and technical expert in Procter & Gamble's Global Product Stewardship organization, which has responsibility for product safety for people, environmental safety, sustainability, and regulatory compliance for P&G's three hundred-plus brands sold around the world. P&G has a longstanding commitment to such programs—in fact, its emphasis on the environment dates back to the early 1960s, when several laundry-detergent ingredients were discovered to cause some fairly significant issues. This led to the establishment of a center of experts responsible for ensuring that when the company's products are released to the environment after use, either down the drain or out with the trash, they will not cause adverse consequences.

Over the course of my P&G career, the company progressively expanded the scope of its environmental programs beyond product safety and its operations' direct environmental aspects—say, releasing manufacturing wastewater into a river—to the broader aspects of its overall environmental footprint. This involved, for example, looking at suppliers in the company's value chain and how they use natural resources to produce ingredients, as well as using product innovation to improve consumer products' performance and environmental quality. Thus, the company's attitude became much more holistic.

My experience at P&G and in work with members of The Conference Board's Product Stewardship and Regulatory Affairs Council is that many companies have seen a similar, fundamental growth in their environmental programs, from a focus on safety and compliance to a broader set of priorities. While the specific drivers vary, many of these companies formed environmental departments back in the '60s and '70s that have evolved into broader sustainability and product-stewardship organizations with overall responsibility for what happens to products at multiple stages of their life cycle.

While product safety and compliance are clearly core values, the challenge for executives working on sustainability is getting the company to value its broader environmental-performance and social-governance aspects from a business standpoint. At least in the consumer-products business, most companies often find that the buying public is reluctant to accept tradeoffs: They want a product that performs just as well as the product they have now, costs the same, *and* is better for the environment. Consumer research pretty consistently shows that only 5 to 10 percent of consumers really make purchase decisions on the basis of their environmental values. One of the reasons is that sustainability is largely invisible to the consumer: When I stand at the cash register, I know how much a product is going to cost; when I use it at home, I know whether it works or not. But I can't really see its sustainability aspects, unless the product saves me money through reduced energy or water use, or I can recycle its package.

So the central challenge for defining how sustainability supports the business is: How do you get recognition for often-invisible product attributes when consumers have other interests? It's like anything else in business—companies have a whole list of competing priorities. The first need is having a quality, affordable product that people will buy and that makes the company a profit. Sometimes the less tangible priorities like sustainability get set aside unless there is a clear signal from the marketplace.

Having said this, I think companies continue to make tremendous strides in many areas related to how they operate and how they value sustainability, and I am optimistic for the future.

■ ROB SHIMP is president of TightLine Answers LLC and program director for The Conference Board's Product Stewardship and Regulatory Affairs Council.

possible. And then the company achieved them. So I'm a big fan of setting big goals, as long as companies put in place processes to back up those goals. That's what BP did for greenhouse-gas emissions, and it's what people are realizing that companies need to do for *all* their goals.

Accountability is the key. John Ruggie, who was U.N. special representative for business and human rights when I worked for him, used to say that the era of declaratory CSR is over. It's no longer enough to say, "We respect human rights. We are part of the societies where we operate." *Show me* what it means to do that. What are the processes that you have in place? What are your policies? Who's accountable?

SPEAKING OF THOSE PROCESSES: TO A LOT OF PEOPLE, IT ALWAYS SEEMED A LITTLE INCONGRUOUS THAT BP—FUNDAMENTALLY A PETROLEUM COMPANY—WAS TAKING THE LEAD ON CLEAN ENERGY AND CLIMATE CHANGE. WERE PEOPLE INSIDE CONCERNED THAT BP WAS WORKING AGAINST ITS OWN BEST INTERESTS?

No—and that's why I joined the company. This was an energy company looking to the future of energy. Yes, the mix was vastly skewed toward fossil fuels, but CEO John Browne clearly saw where the world needs to go, and that was inspiring. I wasn't looking to join an oil company! I went to business school hoping to work in a company that was thinking about its role in the world, and what better place than BP?

For the two big projects I worked on there, in Indonesia and China, the work that I did was very much aligned with the success of those projects. It wasn't just about the company becoming a better corporate citizen. In the extractive industries, you cannot get a project up and running and operate it smoothly if the community around you is rioting and blockading your access roads and sabotaging your equipment. And in manufacturing, some companies are realizing that if you invest in your workers' health and well-being, productivity is higher and turnover is lower. Look at the companies that have signed on to the Aspen Institute's Principles for Long-Term Value Creation.

But plenty of companies *don't* understand this, because the investment is a big upfront cost. And the pressures are all toward short-term results, even though in extractive industries the time horizon is closer to thirty or forty years.

AFTER BP, YOU WORKED ON A U.N. INITIATIVE WITH JOHN RUGGIE BUT FELT DRAWN BACK TO FOR-PROFIT BUSINESS. WHY?

The U.N. work was fascinating—to be part of these multilateral, multi-stakeholder initiatives and see representatives speak on behalf of their countries. It was really exciting. But after a while, it became a little bit less exciting. Having had on-the-ground experience, I wanted to know: If I were going back to Indonesia and going out into the field on Monday, what would I do differently because of this conversation?

The people who have chosen to work in settings such as the United Nations believe very strongly in the power and effectiveness of U.N. declarations and treaties and documents. They are really good at the details of that work—for instance, understanding why it matters that the Human Rights Council endorsed the Aspen Principles and why every word of the principles has implications.

But we all need to figure out where we're most effective, and that was just not my milieu. I found myself empathizing with the corporate representatives in these meetings, saying, "OK, but what am I supposed to do when I get back to the office?" I found myself hungry to get back out in the field. The problems are urgent, and I want to help companies do something *tomorrow*.

WHAT COMPANIES ARE WILLING TO DO TOMORROW IS OFTEN SO SMALL, THOUGH. IS WORKING TOWARD INCREMENTAL CHANGE THE MOST FOR WHICH A CORPORATE IDEALIST CAN HOPE FOR?

It depends on the environment and the company and the industry, obviously. There are moments of transformation in the career of a corporate idealist; when new leadership comes in, at the top of the company or at the board level, there is an opportunity to really change the way a company does things. But people should not expect a revolution every day.

DO IDEALISTS END UP STUCK IN BOXES IN WHICH THEY'RE THE DESIGNATED SKEPTICS WHO NEVER CONVINCE ANYONE?

Oh, sure. A lot of people I interviewed told me, "I'm the conscience of the firm." At first you say that with pride, and eventually you say that with some cynicism. If you're not having any impact, maybe it's time to leave. But we don't want a situation where everybody who's idealistic goes into a nonprofit and all the people without moral consciences go to work in companies. That doesn't make for a sustainable society.

DO IDEALISTS THINK OF THEMSELVES AS WHISTLEBLOWERS?

Corporate idealists are doing the work that they do so the whistleblowers won't need to blow the whistle. They're trying to address these problems before they escalate to the point where somebody feels the need to go elsewhere to solve their problems.

THAT'S TRUE WITH OUTSIDE STAKEHOLDERS AS WELL, RIGHT?

Absolutely. A lot of the work of the corporate idealist is doing outreach and opening channels of communication so you can catch these things before people feel like they need to resort to extreme measures.

ESPECIALLY WHEN THOSE EXTREME MEASURES INCLUDE RIOTS AND SABOTAGE. THIS GETS AT THE LARGER ISSUE OF WHAT THE HUMAN-RIGHTS RESPONSIBILITIES OF CORPORATIONS ARE. IT SEEMS TO BE A MORE IMPORTANT QUESTION NOW THAT COMPANIES HAVE TAKEN OVER SO MANY OF THE ROLES THAT GOVERNMENT ONCE DID.

Part of what corporate idealists are supposed to do is to say, "Well, actually, this is *not* the company's responsibility." It's not unbounded. That's a big part of what the U.N. debate over the principles was about—trying to carve out the boundaries of corporate responsibility. A whole part of that exercise was to bring back the role of the state and make it part of the conversation again.

This is a big problem with how the CSR conversation has evolved—we've sort of given up on governments. If you look at places like where I was in Indonesia for BP, companies are expected to assume the responsibilities of the state. That is neither appropriate nor sustainable. So that's a big part of an idealist's job: helping determine the boundaries of responsibility of your company.

IS IT HARD FOR A COMPANY TO STAY WITHIN THOSE BOUNDARIES? I MEAN, YOU NOTE THAT BP WAS OPERATING IN A HUNDRED COUNTRIES AND HAD 100,000 EMPLOYEES.

That's absolutely true, but at the same time, it's not an excuse. Smaller countries don't have fewer human-rights responsibilities for their citizens than big countries do. It does make it more complex, though. Small companies are often part of vast supply chains, and that's often where things start to fall through the cracks.

SPEAKING OF HUMAN-RIGHTS RESPONSIBILITIES: EVEN NOW, AFTER THE *DEEPWATER HORIZON* DEATHS, DO EXECUTIVES REALLY SEE PROCESS SAFETY AS A HUMAN-RIGHTS ISSUE? HUMAN RIGHTS SEEMS LIKE AN ISSUE THAT'S RELEVANT ONLY OUTSIDE THE UNITED STATES AND CERTAINLY NEVER WITHIN A COMPANY.

When you're talking about loss of life, it *should* be relevant in the United States! Right to life is definitely in the United Nations Declaration of Human Rights.

In the circle in which I travel, we ask questions about what a company's human-rights approach means for things like safety. What does it add to business processes? I think it did make a difference in my work in Indonesia, when we started to talk about the impacts the company had, using the language of human rights. And it represented a shift in mindset from the CSR approach of a company cherry-picking issues to care about. It was putting rightsholders at the center and thinking: These communities and individuals have human rights—thirty of them listed in the U.N. Declaration—and we the company must make sure we are not infringing on any of those rights. Ideally, we'll help contribute to them.

YOU'VE MENTIONED THE UNIVERSAL DECLARATION OF HUMAN RIGHTS A COUPLE OF TIMES, AND OTHER STATEMENTS AND TREATIES. FOR MANY IN THE BUSINESS WORLD, IT'S ALMOST A TRUISM THAT MISSION STATEMENTS AND THE LIKE ARE MORE OR LESS MEANINGLESS BOILERPLATE. JUST LOOK AT ENRON'S "CODE OF ETHICS." HOW VALUABLE ARE THESE STATEMENTS?

I think unifying statements *should* change how a company operates, but they are valuable only if the intent is to back them up with more specific policies and processes. If it's just a piece of paper, that's not very interesting to me. If you can show me how a mission statement is incorporated into how the leadership team is paid, that is *very* interesting. If you're saying that these four values are important to you, show me the CEO's performance contract and how it's organized by those four values.

LAST: YOU SAY "THAT BIG BUSINESS CAN MAKE THE WORLD A BETTER PLACE." THAT'S THE KIND OF STATEMENT THAT MAKES PEOPLE—AT LEAST PEOPLE OUTSIDE OF BIG BUSINESS—ROLL THEIR EYES. WHAT DO YOU SAY TO CONVINCE IDEALISTS?

Big companies enable us to live the lives that we want to live. They provide goods and services that have kept us all alive. I tell people, "Let's take an inventory of what you're wearing and what is in your bag, and let's write down how many brands you're wearing and carrying right now." The last time I did it, on my body and in my bag I had something like thirty brands. And I'm not a big consumer.

Yes, companies can do some really horrible things, but they also enable us to lead the lives that we want to lead. And I just want to see them not hurt people as they're doing it. ■

PERFORMANCE anxiety

BY VADIM LIBERMAN

YOUR PEOPLE ARE INSECURE. WHAT ARE YOU GOING TO DO ABOUT IT?

IT'S HARD TO DO YOUR BEST WORK, TO BE TRULY ENGAGED, WHEN YOU'RE FEELING INSECURE. AND YOUR PEOPLE *DO* FEEL INSECURE.

This apprehension isn't necessarily the kind you might assume, though. For years, workers felt—justifiably—as though their companies treated them as disposable. Not so much anymore. Three-quarters of us feel secure keeping our jobs, according to a recent report by staffing and recruiting firm Randstad. Nowadays, we don't worry as much that today might be our last in the office. (Even if it is, we're more optimistic that a first day awaits us elsewhere.)

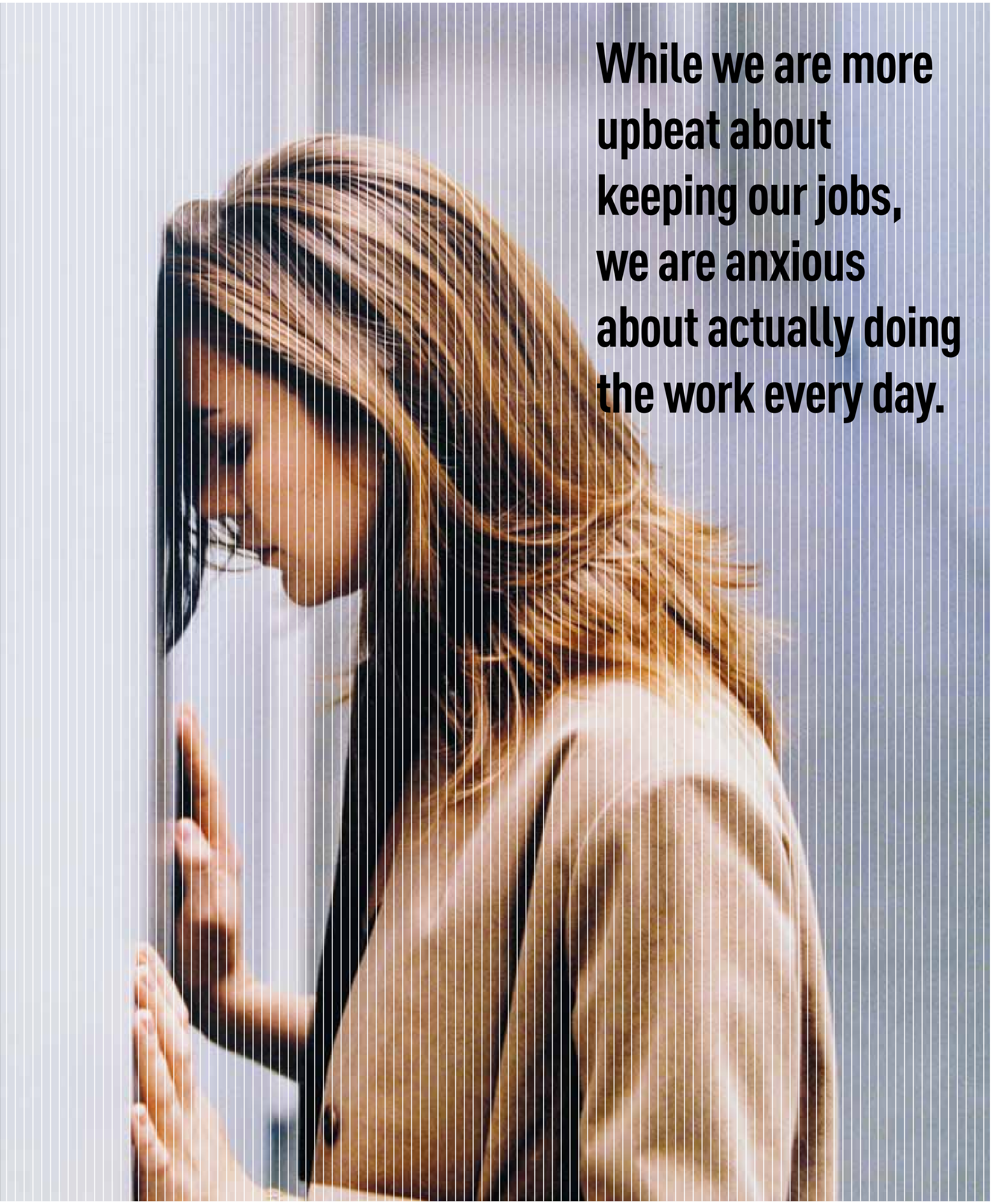
"There's been an alleviation of a lot of economically driven pressure on employees and an uptick in confidence in the job market," says Ken Oehler, global engagement practice leader at Aon Hewitt, "but by no means do employees feel like they're out of the woods."

Why not? What's lurking in the woods?

Serpentine branches of frustration, confusion, tension, and stress—that's what. They strangle our confidence so that while we are more upbeat about keeping our jobs, we are anxious about actually *doing the work every day*. Because the scope of our jobs keeps shifting and expanding, we endlessly fret about and grapple with the what, where, when, how, and even why of our work. More responsibilities—both new and old—and less time to do them, lack of organizational and job clarity, and emerging IT challenges often leave our heads spinning and throbbing. Forget about work/life balance; we can't even find balance at work—with so much coming at us, it's hard to focus on doing a good job.

Call it performance anxiety.

VADIM LIBERMAN is senior editor of *TCB Review* and is too insecure to list his work-related anxieties here.



While we are more upbeat about keeping our jobs, we are anxious about actually doing the work every day.

The belief—the hope—that we would feel significantly better about our work selves once we stopped panicking about our next paychecks was just that. Maybe the darker threat to security never was a pink slip. External forces concerning financial markets, political uncertainty, regulations, competition—all beyond an organization's, let alone an employee's, control—don't unsettle workers nearly as much as various wrecking balls that businesses swing internally.

Buried in the comments section of an hrbartender.com blog post, the Hay Group's Mark Royal and Tom Agnew, authors of *The Enemy of Engagement*, get straight to the point. They write: "In our view, there is a silent killer lurking in many companies. We're talking about workplace frustration, which can undermine the energy, enthusiasm, and performance of your best talent. . . . We're not referring to demotivated or turned off employees. That group is likely to be too checked out to experience personal stress or conflict over their inability to get things done. Rather, we're talking about employees who are engaged with goals and objectives and enthusiastic about making a difference—but are held back by jobs that do not suit them or work environments that get in their way."

"Insecurity doing a job can lead you into a death spiral," adds Gary Magenta, senior VP at Root Inc., a management consultancy. "When you're under stress, you make decisions in haste, being reactive instead of proactive. It's an absolute barrier to job performance." Indeed, insecurity negatively correlates with turnover, creativity, innovation, beneficial risk-taking, productivity, happiness, satisfaction, engagement, and profitability. (Granted, causal links remain blurry, partly because even the best minds—yes, including the one penning this article—often use, misuse, and confuse notions such as happiness and engagement. Slipping these variables—bloated by as many definitions as there are consultancies—into equations between insecurity and performance only further muddies the issue.)

Now, we can have academic debates about whether stress leads to poor performance or vice versa. Or we can forget chickens and eggs, while Neil Morrison, group HR director for U.K. and International Companies at Penguin Random House, sums it up best: "Insecurity leads to more insecurity." And if you need a research report to prove that the feeling of not being able to do your job competently is bad for business, you have scarier problems plaguing you.

ROLLS OF ROLES

Dispirited with their place in an organization, some people fear not losing but *keeping* their jobs. "When a company is not successful, or if people are in roles that don't fit them, if you don't reorganize, the implication is that you're reticent to do what needs to be done, which creates a sense of insecurity," says Jim Link, Randstad North America's managing director of HR. "Inaction can drive fear as much as action."

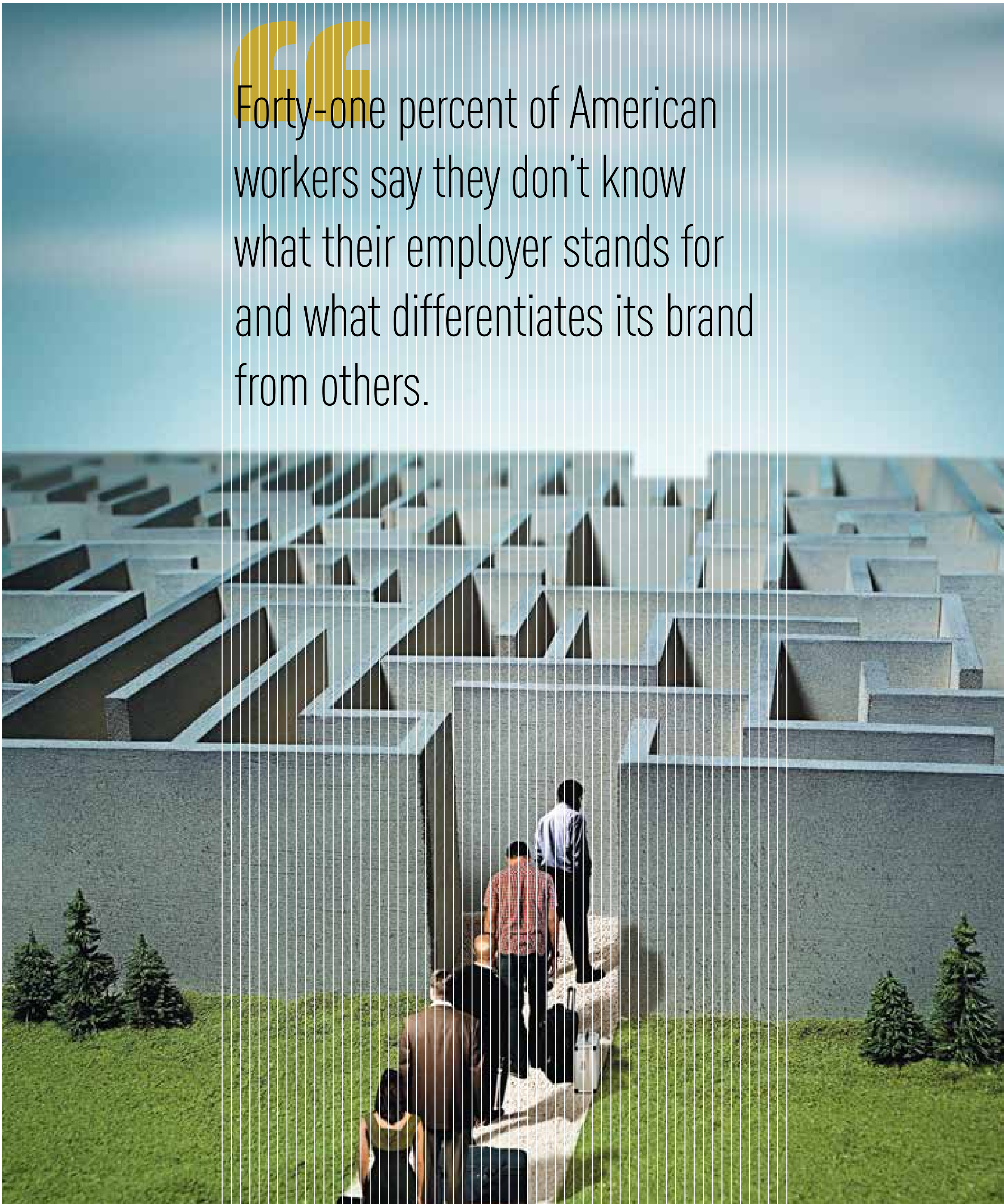
True, but maybe there's been too much action. Since the 1990s, companies have regularly reshuffled their structure and workforce: adding, subtracting, dividing, or multiplying departments, jobs, and tasks, and frequently leaving workers uncertain about where they fit into the latest equation.

"Often, whenever there's something new that gets management's attention—a new book, a new technology—it gets acted on," says management consultant Russell Bishop. "What rarely happens is a not-very-sophisticated but important analysis where you ask, 'What should we start doing? What should we stop doing? What should we continue doing?' People feel overwhelmed by all the pieces of work, many of which may no longer have value."

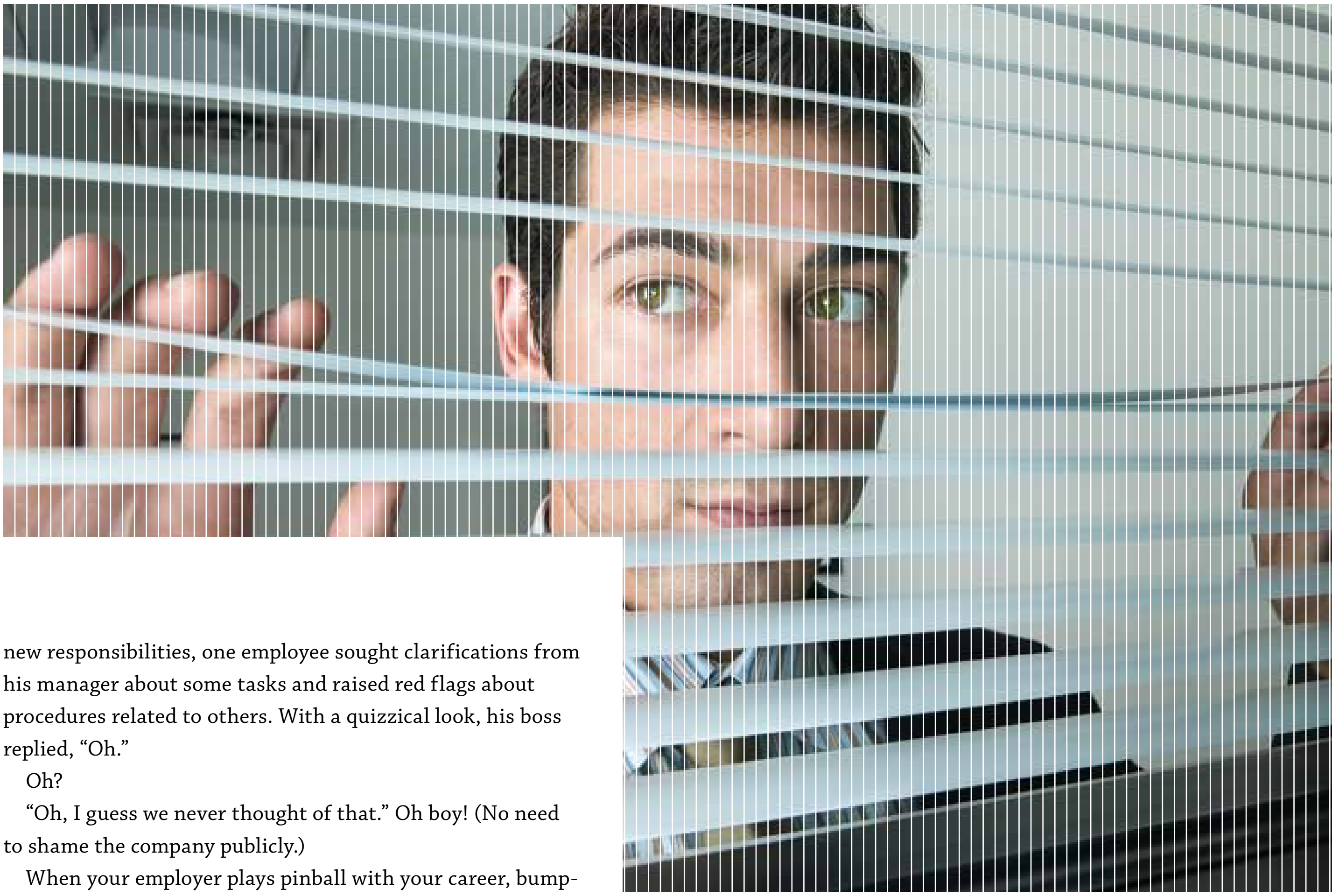
"Reorgs are often based on whims," adds Peter Cappelli, the Wharton's School's George W. Taylor Professor of Management. "Even if they do something useful in the longer term, they disrupt lines of communication and innovation; they inhibit getting work done. It's unfortunate that there is no evidence that what employers are doing even helps their organizations." The frequent shifts have left many companies on shaky ground: According to Gallup, 41 percent of American workers say they don't know what their employer stands for and what differentiates its brand from others.

Sure, change is tough on people. But change is rarely the problem—change management is. In other words, the issue is management.

"In a lot of cases, companies don't think things through, which leads to confusion and lack of clarity of expectations," says Jim Harter, Gallup's chief scientist for workplace management and wellbeing. You can't feel confident about doing something when you're unsure exactly what that something should be. For instance, after receiving a laundry list of



> "Forty-one percent of American workers say they don't know what their employer stands for and what differentiates its brand from others.



new responsibilities, one employee sought clarifications from his manager about some tasks and raised red flags about procedures related to others. With a quizzical look, his boss replied, “Oh.”

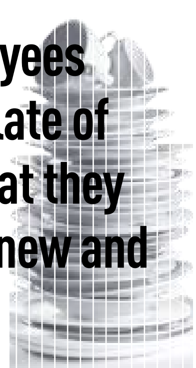
Oh?

“Oh, I guess we never thought of that.” Oh boy! (No need to shame the company publicly.)

When your employer plays pinball with your career, bumping you between positions, springing new tasks on you and stripping you of others, the fatigue alone makes it hard to strike targets. Plus, is the new job actually a promotion—or a demotion? By the time you figure out the game, the corporate pinball machine will send you rolling in a new direction. Then your employer wonders why your performance isn’t where it should be, when actually, it’s *exactly* where it should be.

“In most cases, there’s an organizational failure rather than an individual one,” Neil Morrison says. “If people are poor performers, they either don’t know that they aren’t doing what’s required of them or the organization has placed them in roles that they aren’t capable of achieving.”

It’s not even that employees can’t deal with a new plate of responsibilities—it’s that they must now juggle many new and old plates.



Ah, but new roles mean new opportunities, says your VP of HR. Don’t they?

Workers appreciate chances to grow skills, it’s true, but one talent many people already have is spotting B.S. Real opportunities come offered, not forced—like when managers learn of their new titles, responsibilities, and reporting relationships via companywide blast email. (Yes, this actually happens.)

People are concerned about doing their jobs because they feel like generic cogs in a machine. Displacement is the new disposability when it comes to fear at work. Indeed, according to Cardiff University’s Skills and Employment Survey, more than half of all employees are anxious about their job status—that is, they fear shifts into roles that involve less use of their skills, less say over how work is done, less interesting work, or less pay.

It's not even that employees can't deal with a new plate of responsibilities—it's that they must now juggle many new and old plates, each piled with more tasks and less time to do them. It's enough to spoil anyone's appetite for work. "If every time you close something, there are twenty things lining up underneath it, you don't get that burst of satisfaction that you need to end up valuing your job," says Ken Matos, senior director of employment research and practice at the Families and Work Institute. A swollen to-do list coupled with lack of job clarity can also cause people to default to concentrating on easiest, rather than most important, tasks.

Additionally, as organizations have gotten leaner, consolidation of tasks has intensified the speed and pressure under which we work. For example, in the United Kingdom, research from Cardiff shows that the workweek has fallen from thirty-eight hours in 1997 to thirty-four hours in 2012. Meanwhile, 23 percent of British employees in 1997 said they worked at high speeds, compared to 40 percent in 2012. During that same time span, the numbers of people reporting that they were working harder and had high-pressure jobs also rose.

Let's pause to contemplate this.

Actually there's no time for that because at least five work emails have popped up on your smartphone since you began reading this and you long ago stopped wondering about the failed promises that technology was supposed to increase your free time so that you could sprawl on your couch and watch a *Homeland* marathon but instead technology now forces you to run your own marathon to get your job done thanks to Wi-Fi's ability to deform your living room into a workroom and is that a sixth message alert that you hear?

SUCCESS IN STRESS

Let's not kid ourselves: Intrinsic motivation is great, but it's rarely enough to yield great performance. That's why there are corner offices, plaques, and car service. Perks, rewards, and recognition—and oh, there are also those twice-monthly direct-deposit payments—help keep us working, but so does something else.

Employee insecurity is not good for business—until it is? Anxiety can be a powerful performance enhancer. "Some people are best motivated out of fear and will be spurred by insecurities," explains Russell Bishop, author of *Workarounds That Work*. So rather than mitigate workers' insecurities, should organizations *exploit* them? After all, many employees themselves will tell you that they work best under pressure. Indeed, "if you look at studies of high-performing leaders, a key thing that's driven them forward is fear of failing," says management consultant Marc Effron.

"A little bit of performance anxiety can enhance performance," suggests Ken Matos of the Families and Work Institute. "It can cause you to double-check work, do a little bit of extra research, and push you from OK to excellent. But I want to emphasize that it's *a little bit* of anxiety. Too much becomes distracting. That kind of fear comes with thoughts about what potentially can happen to you after a mistake. That's not helpful, that's not sustainable, and that's not what enhances performance."

Naturally, there's pressure and there's Pressure. "There's a point at which healthy stress becomes unhealthy and you risk pushing people toward burnout," Aon Hewitt's Ken Oehler says. Then, too, you need to weigh any performance benefits that anxiety may bring against costs related to illness, absenteeism, turnover, etc.

Besides, truly negative stress results not from trying to achieve goals but from actions that corporations take to keep you from achieving them—shifting people around too often, into jobs that may not be right for them, not clarifying responsibilities, assigning too many tasks, wrongly taking away others, over-focusing on deficiencies to the detriment of building strengths, restraining decision-making, and more.

"People already show up to work with primal fears," says management consultant Gary Magenta. "'Am I good enough?' 'Am I capable enough?' These fears are ingrained in all of us, and companies have a social obligation not to add to them. They should instead bring out the best in people by helping them use their talents to make their greatest contribution." —V.L.

Furthermore, just as individuals are doing more tasks, sometimes managers must supervise more individuals as corporations redraw lines. The more people under you, the less time you can devote to each—which helps explain why employee engagement falls when managers have teams of more than ten, according to Gallup.

"The concerns that people had about stress at work a generation or more ago now seem quaint: 'My boss doesn't like me and I may never get the promotion and could be stuck in this job,'" Peter Cappelli says. "Today, work demands are through the roof. Not just the amount of work but challenges that employees do not know how to meet, in part because they may not be achievable." And yet, we must achieve them anyway.

Was Sisyphus an insecure employee too?

AN IRRATIONAL RATIO

The wrecking ball swings again at businesses with performance-management systems that fixate on fixing workers' weaknesses. There's nothing wrong with improving shortcomings, "but the more that managers can optimize people to use their strengths, the better an organization will be," Jim Harter explains.

According to Gallup, 40 percent of people who say that their managers focus on neither strengths nor weaknesses are actively disengaged. That's bad. Of those who claim that their managers concentrate on their weaknesses or negative characteristics, 22 percent are actively disengaged. That's better. Finally, when workers claim that their supervisors zoom in on strengths or positive characteristics, only 1 percent are actively disengaged.

There's more. Fifty-two percent of American workers who use their strengths for up to three hours a day report feeling stressed; the number drops to 36 percent for those who use their strengths ten or more hours per day. Similarly, the more time people use their strengths at work, the less they say they worry and the more energy they say they have to get things done.

Nonetheless, oft-cited 2006 research by Marcus Buckingham revealed only 37 percent of people considered building strengths more important to success than fixing weaknesses, down four points from five years earlier.

Actually, people are often confident about their abilities—it's the lack of space to exercise them that spurs insecurity. The main problem with weakness obsession is that as people's jobs continue to expand with new and more responsibilities, everyone's faults naturally multiply faster than their talents, increasing potential for failure. Put differently, employees' strengths-to-weaknesses ratio tips in the wrong direction, which elevates insecurity. Doing a good job under a system the main mission of which is to manage the bad out of you becomes even harder, since you wind up using your strengths less.

"When all you focus on is dealing with weaknesses, you set yourself up for a culture of mediocrity, because you're spending all your time on making sure no one screws up," Ken Matos points out. "You're not spending time making people excellent. You can't just assign a bunch of new tasks and tell people they need to be proficient in all of them." Of course, that's where training comes in, but flaw-focused programs will not transform employees into perfect workbots. Eventually, insecurity will cause them to break down.

"People worried about doing their jobs will do their jobs differently," Matos explains. At worst, insecure workers may mask their deficiencies by covering up mistakes or committing ethical infractions. At best, they will do . . . nothing. "They will aim for the middle and take fewer risks, leading to organizational underperformance," Neil Morrison insists. And so, in an ironic twist, if some people feel secure keeping jobs, it might only be because insecurity doing them has placed them among the less noticeable average.

The wrecking ball swings again at businesses with performance-management systems that fixate on fixing workers' weaknesses.

> **Senior leaders aren't more engaged because they get to force peons to make photocopies but, rather, because they have the *choice* to make copies themselves.**

"Companies have a lot of opportunity to move this middle group by giving them opportunities and recognition, helping them know their role, and encouraging them to voice their opinions without fear," Jim Harter says. Perhaps some enterprises are coming around: Yahoo! and Microsoft recently rid themselves of forced ranking, which critics have long argued ruthlessly emphasize weaknesses. Still, organizations can do more.

POWER POINTS

In fact, they are doing more, but not necessarily better. From nap rooms to yoga classes to wellness seminars, corporate efforts to relieve stress can do just that. They can make us healthier, but they do not make us more confident, because they target life, not work, pressures. Give people free bagels, ask them questions that really point to happiness or satisfaction, use answers to show (false) engagement levels, and you wind up not just ignoring real problems of insecurity but fueling them because you've failed to address the most important aspect of work: the work. In fact, bagels fail to make the list of top engagement drivers, according to a recent report by The Conference Board. Rather, "trust and integrity," "nature of the job," and "line of sight between individual performance and company performance" rank highly.

Perks aren't pointless, exactly, but most are misapplied Band-Aids that might make people happier but not necessarily more secure and engaged. What's more, engagement works better than perks to encourage happiness. For instance, Gallup research shows that engagement influences wellbeing more than policies related to hours, flextime, and vacation. Engaged employees who took less than one week off from work in a year reported 25 percent higher overall wellbeing than actively disengaged workers, even ones who took six or more weeks vacation.

It's about the work, stupid. Often, that means it's about empowerment, having decision-making influence over your own role, as well as your company's actions. Disempowered employees are more insecure and perform worse, and no bagel, downward-dog pose, or office party will change that.

It's no surprise, then, that engagement levels rise as one moves up in a hierarchy. Senior leaders aren't more engaged because they get to force peons to make photocopies but, rather, because they have the *choice* to make copies themselves. They're freer to concentrate on their interests and strengths, as well as work more confidently, because they're likelier to understand their roles, given their proximity to the nucleus of decision-making.

Still, isn't everyone—you know, beyond the overused example of Southwest Airlines ticket agents—more empowered these days?

According to Cardiff research, in 1992, 84 percent of British workers said they had jobs that allowed them high task discretion. By 2001, the number had dipped to about 72 percent, where it has remained until 2012 (the last year for which data is available). Likewise, about 36 percent of workers in 2001 said they had some say about work organization at their companies; by 2012, the number had fallen to 27 percent.

Not very encouraging, until you consider that empowerment is difficult to gauge, especially as personal expectations evolve over time. Decades ago, an employee may have felt empowered to work from home one day a week. Today, some workers hardly ever visit the office. But even if we have greater say over our jobs now, it doesn't always feel that way because we don't compare ourselves to employees from generations ago. Ultimately, it's about subjective perceptions, so the question isn't whether people actually have more freedom presently but whether they *feel* like they do.

"I don't think people are empowered," Neil Morrison insists. "Organizations have put in place mechanisms that they say drive empowerment, but I'm not entirely sure there's any real change. It's more about the culture that sits beneath that mechanism. It's like putting in place a suggestion box but not actually doing anything with the suggestions. Or having an 'Ask the CEO' forum, but the CEO uses it as a basis to tell people why they're wrong. This is not empowerment."

Empowerment can breed even greater anxiety if done in name only. "I'm working with an organization now that is trying to empower its people, but there's a culture that doesn't tolerate mistakes," Gary Magenta explains. "But when you have more autonomy, you have more opportunity to be wrong on your own, and failure is inherent in that. To avoid insecurity, you have to give employees the resources and the latitude to take risks."

Granted, efforts to put decision-making into the hands of more workers can be obstacles for the average employee who desires simply to do a decent job and go home, but do you want this type of person dictating wider talent-management

Where there's greatest insecurity is where there's least support and guidance from managers.

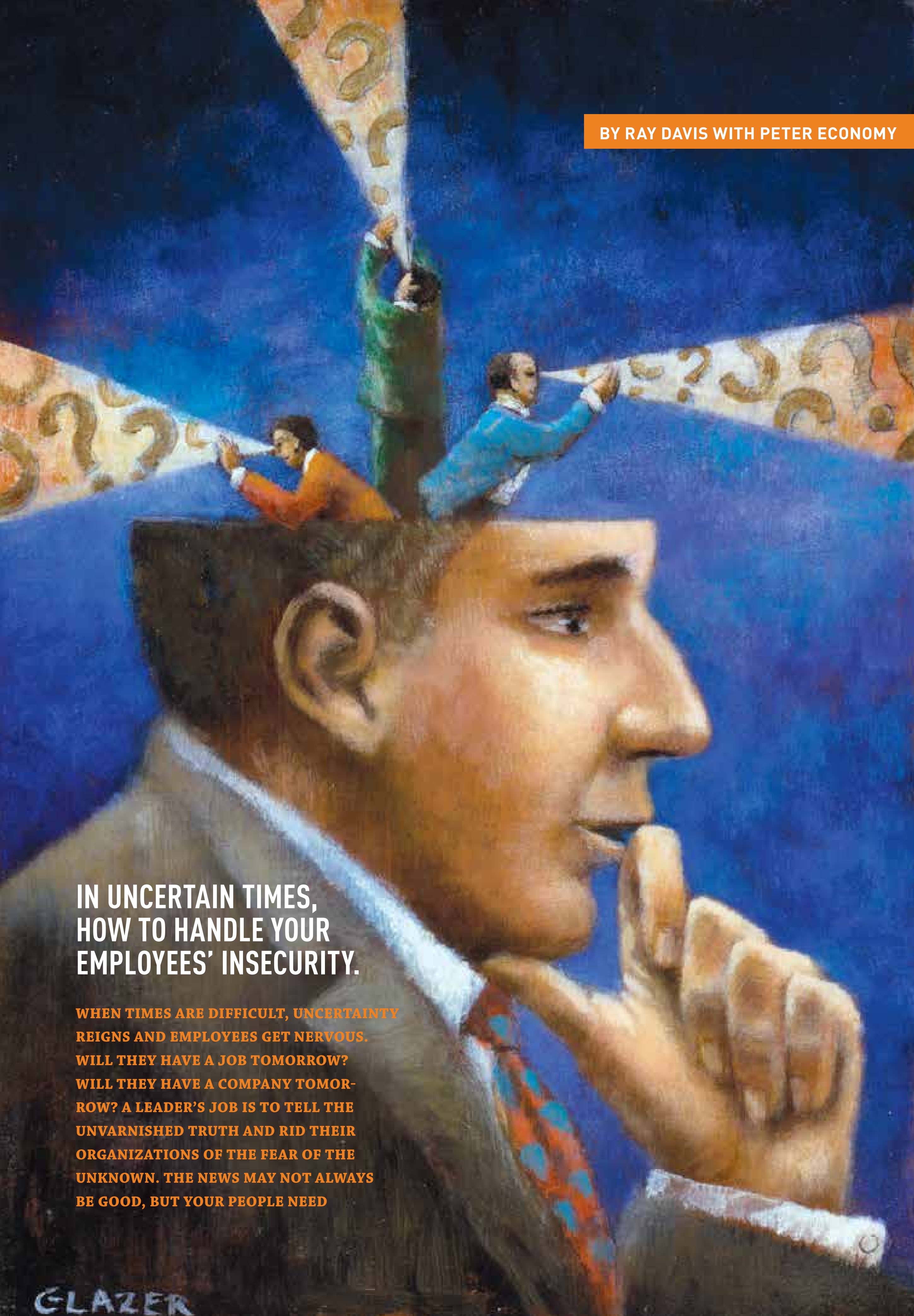
policy? As long as you truly empower people, you'll end up building more confidence throughout your organization. Besides, a self-assured average employee is better than an insecure average employee.

"Empowering people must *not* mean disempowering managers," Nancy Foy writes in her 1994 book *Empowering People at Work*. "People want to be managed. They want to be managed well. They want their leader to lead them, pointing the way, focusing on priorities, feeding back on how they are doing. There is no room for management abdication in an organization that is trying to empower its people."

In the end, this comes down to what so many issues come down to: relationships between bosses and subordinates. "Where there's greatest insecurity is where there's least support and guidance from managers," explains management consultant Bruce Tulgan. Hence, the simplest way to boost confidence and engagement is to ask people for their opinions, something few managers do enough, Jim Link insists.

At the same time, "if you're an employee sitting around waiting for your company to ask you these questions, then shame on you," says Marc Effron, president of The Talent Strategy Group. "Employees need to take personal ownership of their careers."

Effron is undeniably right, but if a subordinate fails to initiate a discussion, then part of managing is to do it for them. Corporate games of chicken won't produce better performance, and isn't that what this is all fundamentally about? The Society for Human Resource Management reports that 71 percent of employees said they frequently put all their effort into their work, so your people already work hard. It's up to you to help them work better. Ask them how. After all, if they don't feel confident doing their jobs, they'll confidently tell you why. ■



BY RAY DAVIS WITH PETER ECONOMY

IN UNCERTAIN TIMES, HOW TO HANDLE YOUR EMPLOYEES' INSECURITY.

WHEN TIMES ARE DIFFICULT, UNCERTAINTY REIGNS AND EMPLOYEES GET NERVOUS. WILL THEY HAVE A JOB TOMORROW? WILL THEY HAVE A COMPANY TOMORROW? A LEADER'S JOB IS TO TELL THE UNVARNISHED TRUTH AND RID THEIR ORGANIZATIONS OF THE FEAR OF THE UNKNOWN. THE NEWS MAY NOT ALWAYS BE GOOD, BUT YOUR PEOPLE NEED

■ RAY DAVIS is president and CEO of Umpqua Bank. From *Leading Through Uncertainty: How Umpqua Bank Emerged From the Great Recession Better and Stronger Than Ever.*

THEY CAN HANDLE THE TRUTH

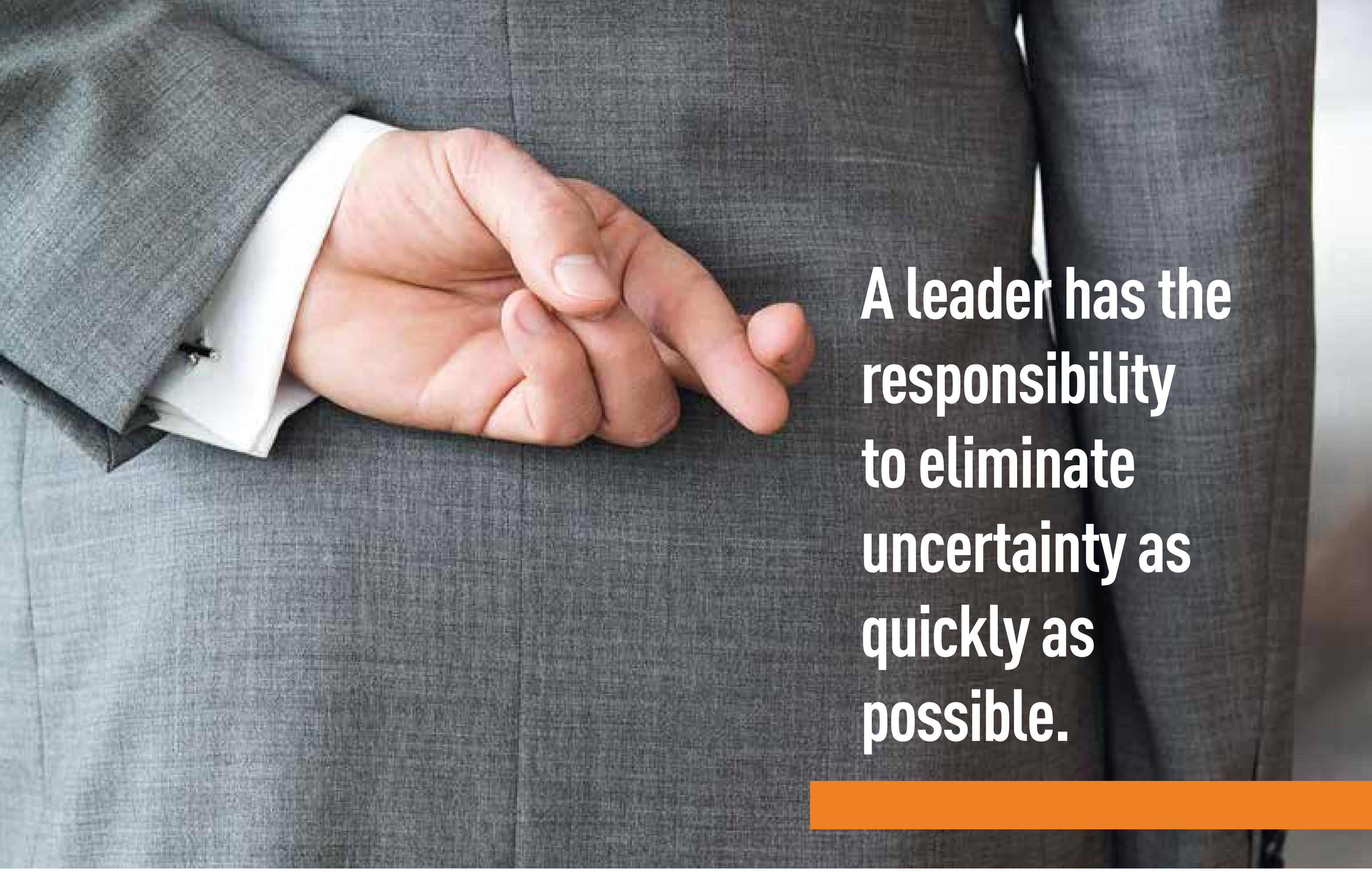
TO UNDERSTAND WHAT'S GOING ON SO THEY CAN DEAL WITH IT.

Some people think of the truth in relative terms—that there are varying shades of truth and truth telling, tempered by the purpose for telling it, and the anticipated result when it is told. As a result, some leaders shy away from telling their people the hard truth. Why? I can only guess that some are perhaps concerned that employees can't be trusted with it, or that they will be upset when confronted with the facts, or maybe even that they will leak the information to competitors or to the press.

In my experience, this is one of the biggest mistakes a leader can make.

I think that the greatest fear we all have, one everyone has to some degree, is fear of the unknown. When you're home alone at night and you hear an unexplained noise, the natural reaction is to be uneasy until you can determine what the source of the noise was. Similarly, in business, it's human nature for people to have concerns or worries when, for example, your company was just purchased or has merged with a larger competitor. And if the issue is left unexplained, these concerns and worries can become debilitating to people and to the organizations in which they work. In the wake of massive organizational change or disruption, employees wonder about all kinds of possibilities, including, "What's going to happen with my company?" or, "What's going to happen with my job?" or, "What's going to happen with me?"

This kind of worry is completely rational—and often not unfounded. When mobile-communications provider T-Mobile USA began to execute its merger with MetroPCS, it announced in April 2013 a series of layoffs that quietly deleted up to four hundred



of the company's highest-paid positions from the marketing and operations group of its Seattle-area headquarters. This took place soon after the company laid off more than 4,200 call center and other workers earlier in the year. And in March 2013, First California Bank announced that it would lay off fifty-five of its headquarters employees as a direct result of its acquisition by PacWest Bancorp, with other layoffs expected in areas where the two banks have overlapping branches.

Companies going through times of difficulty or change may unintentionally spark fear within their people, creating an environment where employees are worried about their future.

Summed up, these examples describe the fear of the unknown. This type of employee concern can wreak havoc. Like a particularly aggressive flu, it can spread quickly—not just within the company but also to suppliers, customers, and others. A leader has the responsibility to the company and employees to eliminate uncertainty as quickly as possible or be ready to deal with the consequences. And these consequences can be costly for the future of the organization. Effective leaders should be on the lookout for sign of fear on the faces of people who feel they may be at risk and immediately take action to do something about it.

THE FEAR

If people are fearful of the unknown, their production, their energy, and the company's morale will all plummet. It's a natural consequence of uncertainty in the workplace. That's not good for an organization or for its customers. In the extreme, such fears can lead to anxiety disorders, which, according to the late Jerilyn Ross of the Anxiety Disorders Association of America, "all involve irrational, seemingly uncontrollable and frightening thoughts, which often results in avoidance behavior. And in all cases, the person with the disorder is fully aware that their behavior is irrational. . . . What's more, in most cases the disorder impairs the person's normal functioning."

As a leader, what do you do? How do you resolve this uncertainty, and this fear?

Believe it or not, the most effective way to rid an organization of fear of the unknown is simple: tell people the truth. Sounds too easy, doesn't it? Maybe it does, but telling the truth is often easier said than done for many leaders. It's not that they want to lie or tell untruths—it's just that they don't think their people or their organizations or their stakeholders are ready to hear the truth just yet. Indeed, they may be fully committed to telling the truth—when they think the time is right.

I have discovered through my own leadership experiences over the years that people can deal with the truth. Even when it's not good news, when they know what's going on, understand how the situation may affect them, and grasp what they're up against, most will start to adjust and make plans. In other words, the negative energy created by worrying is replaced with positive, productive actions and attitudes.

I always tell our people that they're entitled to get answers to every question they have. I let them know I'm not going to defend myself when it comes to their questions, but I will explain what's going on. I also tell them that while they're entitled to answers to every question, that doesn't mean that they're going to like the answers. But it's going to be truthful, and I know they can deal with the truth. This might create additional questions, but we'll get through them. And we do.

I also don't think it's right for leaders to withhold the truth hoping to get the timing just right or trying to benefit from a big splash with the news. They owe it to their people to get the truth out to them as quickly as possible—and I mean *absolutely* as quickly as they possibly can. You're not going to build trust if you don't do this. You're not going to motivate and inspire people if you don't. You're not going to be an effective leader if you don't. I don't care how bad the news may be, you've got to treat your people like the adults they are and provide them with the information they need to make their own decisions. It sounds simple, but it requires discipline and action.

At Umpqua, we've completed many acquisitions over the years. One of the first steps I take after a transaction is official is to call a town-hall meeting where I address everyone in the company we've just acquired. I know that the people in these organizations are anxious and nervous. They have questions about what's going to happen, both to their organization and to them personally. During these meetings, we introduce ourselves, explain the next steps in the integration process, and allow our new associates to get a peek into the Umpqua culture and what it stands for—and what it will mean to them. I also make a point of quickly getting to the question, "What's going to happen to me?" because I realize that until I do, they're not really listening to anything else we have to say. They want—and need—to know the answer to, "What about me?"

I know that there's a chief auditor somewhere in the room thinking, "Ray, your company already has a chief auditor, and I have that position here. You don't need two of us, do you? Am I going to be the one who lands on your layoff list?" At Umpqua, we've taken a clear position with our staff when the issue of layoffs comes up—whether in an acquisition, department consolidation, or simple organizational changes—that we have no plans to eliminate people from the organization. Our approach, which we explain in detail to our new employees, is that, yes, there will be job redundancies resulting in position eliminations. However, those are positions, not people. If it turns out that your job is going to be eliminated, we want you to apply for one of the 150 open positions that we're recruiting for—and hope that among all those vacancies, you'll find something that works for you.

We're truthful with people. We put everything on the table, and we let them deal with the fallout in whatever manner they choose. By being absolutely truthful, you will be helping your people get answers to their questions. As an added benefit, you'll also be helping them find their way through these uncertain times.

PERMISSION GRANTED

Communicating early and often, and in as many different ways as possible, is the foundation of my approach to organizational truth-telling. I make a point of getting news out to all associates throughout the company on a regular basis. We use many vehicles to accomplish this, including a quarterly broadcast call or video, town halls, focus-group meetings, and events centered around the achievements of our associates. We convene town halls for significant milestones like acquisitions, as well as throughout the year within the company's geographic footprint for all Umpqua associates. We use these as an opportunity to communicate with our people as well as to motivate and excite them.

During the worst days of the Great Recession, we increased the number of town halls because we realized how critical it was to ensure that everyone was aware of the actions management was taking to position the company for better days. It was our way of helping to relieve at least some of the anxiety our people felt about the uncertainty of the economic climate at the time. We helped bring some certainty into their lives—the certainty that we were doing everything we possibly could to ensure that their company would remain strong no matter how bad things got.

When we started conducting town halls almost twenty years ago, we set aside time during the meetings to address our associates' questions. Given Umpqua's unique culture, we accomplished this in an unusual yet productive manner. Part of taking away the fear of the unknown is making sure you're listening to and answering your associates' questions, because these are windows into their concerns and perspective. Before our first town hall, we asked our associates to submit their questions to our Culture Department—anonymously, if that was their preference. In other words, we were giving them permission to ask any question they wanted to—I mean *any* question.

During our town halls, I answer every associate's questions with this proviso: I must read their questions exactly as they wrote them. The reason for this is I don't want them to think I'm going to water down the sharpness of any question. I'm committed to taking on even the most difficult issues our associates bring forward and addressing them directly and honestly. Over the years, the anonymous-question segment of our town halls has grown into an important communication tool, enabling management to get the truth out while answering our associates' concerns.

Why anonymous? You want your people to feel safe that there will not and cannot be retribution against them for asking the kinds of questions that might shine a light on any mistakes or bad decisions. We're human, after all, and not perfect. To require your people to stand up in front of a large group of co-workers with a microphone and ask a tough question—maybe a scary question to them—of the CEO can be nonproductive and a complete morale-buster. That's a sure way to kill any sense of honest exchange, and I can guarantee that you aren't going to get many of those tough questions. And don't forget: If you get caught not being truthful or misleading your associates, even in an innocent way, you're digging a hole of distrust that you may never be able to get out of. It takes a long time for people to forget something like that, if they ever truly do.

Our quarterly broadcasts and focus-group meetings are used for different purposes but are just as effective in communicating the truth to our associates. Every quarter, the day after our earnings announcement is made public, I hold a broadcast call or video for our associates and explain the company's financial prospects, as well as any other pertinent news, including recognition of associates who have made a significant contribution in that quarter. At the end of these broadcasts, I always let everyone know that should they have questions to call or email them to me so I can respond.

Yes, that's right. We have more than twenty-five hundred associates at Umpqua, and I answer each of their questions as fast as I can—usually within the same day. It's one of the most effective things I can do as a leader. It clearly demonstrates my commitment to our associates and my respect for their experience and perspective, and it reinforces our culture of telling the truth. I lead by example, and I expect all of our company's other leaders to follow suit. It's the right thing to do, and it helps relieve uncertainty in our organization, along with any fears that our associates might have about the future of the organization and their place in it.

Our focus-group meetings are more in-depth. These are called on a moment's notice on an ad hoc basis. I invite ten to twelve of our associates to join me for a cup of coffee to discuss the company. I purposely do not invite management, only staff from all parts of the company. When we meet, I solicit and encourage associates to provide me with honest and constructive criticism of the company. Anything and everything is on the table, from the coffee we supply in our stores to the internal processes we use to train and promote associates. I tell them, "We can't expect our company to get better if we're not aware of what we're doing poorly or inefficiently." After a couple of minutes, I have no problem getting an earful of feedback about improvements we should consider making. I'm personally committed to following through on the feedback I receive during these meetings. The actions taken to correct issues that come up prove to our associates that we care about making things better and that we listen to them. These sessions are particularly invaluable in more difficult times.

THE WINNERS IN BUSINESS ARE THE LEADERS WHO ARE TRUTHFUL WITH THEIR PEOPLE WHEN TIMES ARE CHALLENGING AND THE NEWS ISN'T GOOD.

Some people think that being truthful is a courageous act, and for some people it may be. However, I personally don't think it's courageous to be truthful; I think it's the right thing to do. If you think about it, telling the truth should be the easiest thing in the world to do—in good times and in bad. And no matter how easy or hard it is, telling the truth is one of the best antidotes you have in your leadership toolbox to combat the uncertainty that can distract your people from doing the work they need to do to the best of their abilities.

If you're not going to be truthful with yourself, your people, and the issues at hand, how do you expect to get better? How do you expect to resolve the issues that every organization and every leader inevitably face?

When I think about leading through uncertainty, the winners in business are the leaders who are truthful with their people when times are challenging and the news isn't good. I think it's tempting for a leader to think, "The news is really bad, and I hate to be the one who has to tell my people that. Maybe we better hold off and not tell them until I can figure out a better time." This does far more harm than they'll ever dream of. People can deal with the truth.

I think in the scheme of things, some people might tell us that a leader can be too direct, or too blunt, and scare the heck out of people. I agree that the way you communicate is very important, but I believe people would rather know the facts than be led down the Yellow Brick Road to some fantasyland that doesn't really exist. ■

SURPRISE!

CHINESE CONSUMERS ARE NOT AMERICANS.

SAVIO CHAN TAKES A CLOSE LOOK AT BUYING BEHAVIORS IN THE FAR EAST.

★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★ BY VADIM LIBERMAN

VADIM LIBERMAN is senior editor of *TCB Review*.

IT SEEMS THAT EVERY WESTERN COMPANY THESE DAYS IS TRYING TO FIGURE OUT WAYS TO BREAK INTO THE CHINESE MARKET. IT'S NOT HARD TO UNDERSTAND WHY. IT'S MUCH HARDER TO UNDERSTAND HOW.

TO SELL IN CHINA, YOU FIRST HAVE TO REALIZE THAT THERE'S A DIFFERENCE BETWEEN SELLING IN SHANGHAI AND NEW YORK. SAVIO CHAN KNOWS THAT, AND HE WANTS YOU TO KNOW THAT, TOO. CHAN IS PRESIDENT AND CEO OF US CHINA PARTNERS, A CONSULTANCY THAT SPECIALIZES IN AMERICAN AND CHINESE BUSINESS RELATIONS. BY PEERING INTO THE MINDS OF CONSUMERS IN CHINA, WESTERN COMPANIES STAND A FAR BETTER CHANCE OF CONVINCING PEOPLE TO PART WITH THEIR YUAN. CHAN, A SPEAKER AT THE CONFERENCE BOARD'S 2014 CUSTOMER EXPERIENCE CONFERENCE, SHARES HIS INSIGHTS ON HOW BUSINESSES CAN BETTER CONNECT WITH CHINESE CONSUMERS.

WHAT DO YOU FIND MOST NOTEWORTHY ABOUT CHINESE CONSUMERS?

For one thing, a good number of them are really borderless. They don't only consume in China. More and more middle-class Chinese consumers are traveling and shopping abroad. They will go to London or Paris or Los Angeles or New York to shop. Fifth Avenue and places like Woodbury Commons [a New York state shopping outlet] are packed with Chinese consumers because they appreciate the better bargain, without certain luxury taxes and duties.

SO THE BEST PLACES TO TARGET CHINESE CONSUMERS ARE OUTSIDE OF CHINA!

Well, 60 percent of the luxury-good consumption for Chinese consumers is out of China. They find better prices and better values abroad. What's really interesting about them is that they will spend $99 to stay in a cheap hotel in New Jersey, but then when it comes to shopping, they will spend $7,000 in a shop on Fifth Avenue.

IT'S KIND OF ODD TO PICTURE SOMEONE CARRYING AN ARMFUL OF HERMÈS BAGS INTO A MOTEL 6.

It's because many Chinese will only spend on things that they can show off to other people. Nobody knows when you travel to America and stay at a Motel 6, so what's the point of spending thousands of dollars to stay at the St. Regis? Nobody will ever *see* that. However, things like luxury goods are very visible to other Chinese friends, so people will spend a lot on them. That's why a company like Victoria's Secret probably wouldn't do well in China. People won't spend that kind of money to buy underwear that almost no one will see. Instead, people like to spend money to say, "Hey, I moved up in society. I can now afford to spend two grand on a Gucci bag."

SO PEOPLE CARE A LOT ABOUT LABELS?

Chinese consumers are very brand-sensitive, especially if that brand is a foreign one. In China, there's a saying: "The moon is rounder overseas." So U.S. brands can sell more in China than in the United States.

First, there's the issue of quality. Until recently, Chinese quality was not very high. That's one reason why Chinese are willing to pay more for U.S. brands—sometimes three, four, even five times as much as for a local brand. It's why when many Chinese visit America, they go to GNC to buy ten boxes of fish oil and vitamins.

Second, if people can afford to buy foreign brands, then they have proven themselves in society. Again, though, it depends on the product. People will buy less-expensive domestic brands for the home—refrigerators, air-conditioners, and other home appliances. Few people except the family will see these brands in your home, so people see no reason to spend a lot on them, but when it comes to all the things you'd wear to go outside, people are likely to favor foreign brands.

BUT DOESN'T EVERYONE LIKE A QUALITY TV IN THE HOME?

They do, but quality for those types of products is actually quite good now in China—not as great as the quality of top brands in the world, but Chinese TVs and other products work pretty well. They may not be a 10, but a 7 or 8 quality-wise is good enough. For products for the home, no one cares about brand, as long as it works and doesn't break down. But for products many others can see, it's all about showing off. For example, people will only eat Häagen-Dazs in public. Men will take their girlfriends to the store and spend $5 on a pint of Häagen-Dazs ice cream, but they will not buy a pint for the home.

DO CHINESE CONSUMERS CONSIDER OTHER FACTORS, LIKE SUSTAINABILITY, WHEN MAKING PURCHASING DECISIONS?

They care to an extent, but the general Chinese consumer is behind the U.S. consumer in that regard. In the United States, the government pushes sustainability, but the Chinese government is late to the game, and so as consumers, Chinese are not as sophisticated in that regard. But that will change down the road.

SO BESIDES THE BLING FACTOR, WHAT ELSE DO CHINESE PEOPLE CARE ABOUT AS CONSUMERS?

They care a lot about history, heritage, culture. Companies that somehow connect Chinese heritage to their products will do well. For example, in all of their stores globally, Louis Vuitton has pieces of artwork that somehow relate to the local area. That sort of approach resonates especially with people in China.

People also love sales. They love good values.

WHO DOESN'T?

Everyone all over the world does, but in China, it's how you convey the value of a product that matters. For example, in Chinese department stores, you see lots of workers standing there to promote products. These workers are paid not by the stores but the brands themselves. People like to discuss what they buy or what they plan to buy with others.

DO PEOPLE READ REVIEWS ONLINE MUCH?

They do this more than their U.S. counterparts. Chinese consumers do a lot of research and reading about products, and are always eager to share what they learn with friends. They spend a lot of time and energy on that. They are very vocal online, which is why it's important to engage them in social media.

In China, there is no Facebook or Twitter, but there is WeChat. In less than two years, it has blossomed, with 250 million users in China. It's driving the way that people shop. Users can instantaneously communicate with friends and family by chat and texting on WeChat. People can do that here in America, too, but what's different is that WeChat users often have group chats, maybe five or ten of their friends, or a family group—and if you don't like to type, you can press a button on your cell and talk into it, sending something like an instant voice mail to your group. It's like using a walkie-talkie. That's why China has no voice mail. No one leaves actual voice mails on cell phones or landlines because they are using WeChat in a more instant way. A lot of brands leverage this by, say, creating a video to show new products or models so that WeChat users will share it with their groups. It's buzz-creating.

WHAT ABOUT ONLINE SHOPPING?

Mostly, people buy only low-end products online, because a lot of online sales are cash-on-delivery. Use of credit cards is growing, but especially inland, credit cards are not very popular. For higher-end products, people prefer to buy in-store, whereas online they would be worried about whether something is real or fake. People worry about that a lot in China! That's one reason why very few top brands do e-commerce in China.

DO WESTERN MULTINATIONALS TAKE LOCAL CULTURE INTO CONSIDERATION ENOUGH WHEN ENTERING CHINA?

Some do. Others don't do so well because they don't consider how the Chinese culture differs from their own. Take Home Depot. In America, a lot of their marketing centers on a do-it-yourself approach to projects in your home. But this business model does not work in China. Chinese are not handy people. People don't renovate their garages themselves. If they want to do any work on their home, they hire contractors. Home Depot's American model proved to be completely wrong for China. Instead, the company should've targeted more contractors and construction companies.

Best Buy is another company that had problems. The Chinese appliance-and-electronics retail industry is very price-driven. Best Buy was competing with local dominant chains that are larger and capable of crushing Western stores on price. Meanwhile, Best Buy was also charging for delivery and all sorts of after-sell services, but that model doesn't work in China. People don't want to pay for those services. The store was just too expensive for many people. Even the name "Best Buy" translates into "Think One Hundred Times Before You Buy." That's not good.

IS THERE A FIELD THAT IS PARTICULARLY RIPE FOR WESTERN PENETRATION?

I'd say women's cosmetics and skincare. Chinese women are getting more powerful and consuming a lot more. For example, my friend Wei Brian—she's Chinese but is married to an American and lives here—has had a big following in America on HSN for her skincare products. After she began selling her products in China a year ago, she achieved the same volume in business as she did in America over the past ten years.

The market is big in China, and there's an insatiable demand for U.S. and foreign products, but companies really need to have local Chinese leaders to understand all sorts of local nuances. They have to talk to a lot of Chinese consumers. Unfortunately, Americans' understanding of Chinese consumers is still so little and so weak. ■

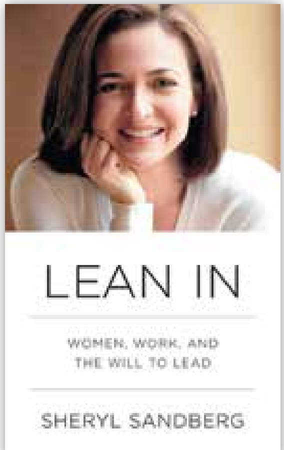
“WHAT’S THE BEST BUSINESS BOOK YOU READ THIS YEAR?

For two decades, we’ve been asking people about their favorite business books, and every year two or three shrug off the question with, “I rarely read business books.” But not this year—everyone jumped in with an answer. Why? Perhaps because, as Stuart Crainer argues in our Q&A this issue, business books are more relevant than they used to be. For decades, consultants and academics aimed to make companies more efficient and profitable; now, more and more have broader concerns—they’re looking to remake all of corporate America or even, well, the world.

—MATTHEW BUDMAN

WHAT'S THE BEST BUSINESS BOOK YOU READ THIS YEAR?

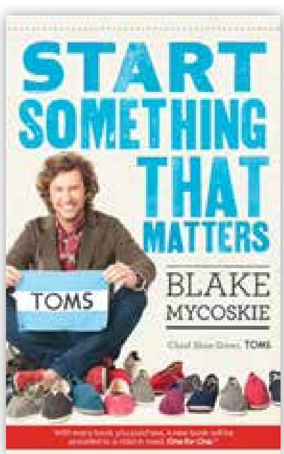
MICHAEL USEEM:



Sheryl Sandberg, Facebook's chief operating officer, has crafted a compelling account for how and when to take charge. *Lean In: Women, Work, and the Will to Lead* builds on her experience at Facebook, a stint at Google, and service as chief of staff for the U.S. Treasury Secretary. It also draws on an array of studies to make the case that too many women—and many men as well—are ready for leadership responsibility but underestimate their talent or are shy about exercising it. Her formula is clear: Appreciate your strengths, lean in, take risks, and reach high. Those who aspire to lead will find a powerful playbook here, and those who already lead will be grateful for its readers' heightened readiness to take charge as well.

PROFESSOR USEEM is director of the Leadership Center at the University of Pennsylvania's Wharton School and co-author with Dennis Carey and Ram Charan of *Boards That Lead: When to Take Charge, When to Partner, and When to Get Out of the Way.*

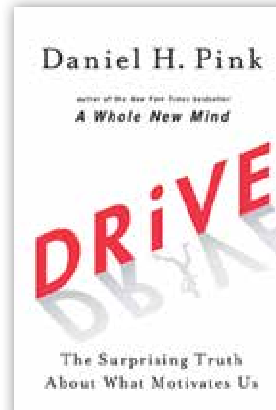
KIMBERLY PALMER:



Blake Mycoskie started TOMS, the shoe retailer, and *Start Something That Matters*, the story of how he made it a thriving company, has taught me a lot about how to succeed in business today. His company revolves around an incredible premise: For every pair of shoes sold, the company gives a pair to someone in need. That means you can feel great about your shoe purchase because you're also helping someone else in the process. It also makes a great story, which has no doubt helped spread the word about TOMS shoes. The book gets at a central question we all ask ourselves: How am I making an impact on the world? How am I helping people? Mycoskie's book, and the lessons in it, stayed with me long after I finished reading it.

MS. PALMER is senior money editor at *US News & World Report* and author of *The Economy of You: Discover Your Inner Entrepreneur* and *Recession-Proof Your Life*.

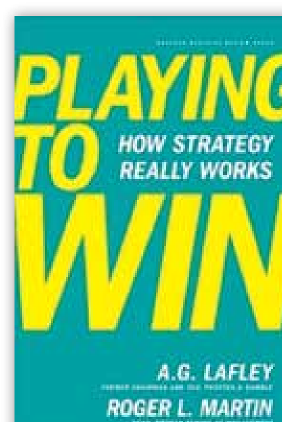
JIM McCANN:



The best book I have recently read is Dan Pink's *Drive: The Surprising Truth About What Motivates Us.* The author continues his practice of offering up keen observations of human motivation, this time in the workplace. His discussion of why we do what we do, and his use of research to support his philosophy, make his books relevant and important for any smart communicator.

MR. McCANN is founder and CEO of 1-800-FLOWERS.com and author of *Talk Is (Not!) Cheap: The Art of Conversation Leadership*.

DENISE LEE YOHN:



The popular belief "culture eats strategy for lunch" might lead you to conclude there's no need for strategy—I know I did for a while. Given the increasing pace of change in today's business world, I had begun to question the importance of strategy. I even wrote a piece explaining how the delineation between strategy and execution had become irrelevant, arguing that instead of thinking about choosing a path (strategy) and then following that path (execution), companies need to be focused on adapting to and excelling on whatever path they find themselves on.

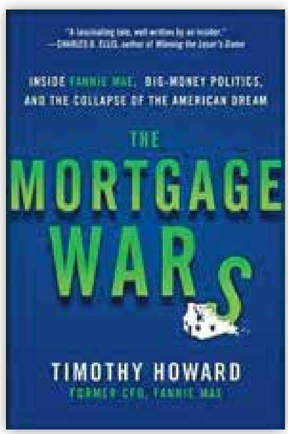
But then A.G. Lafley and Roger Martin set me straight. In *Playing to Win: How Strategy Really Works*, they show

how strategy—smart, clear, simple strategy—doubled sales, quadrupled profits, and increased the market value of P&G by more than $100 billion. The book reframes the seemingly antiquated strategic-planning process into a set of five integrated strategic choices, and then shows how P&G applied this approach in brand after brand, with consistently remarkable success. Armed with the clarity that strategy is really about making specific choices to win in the marketplace and compelling examples of its use, I count myself a believer in strategy once again.

■ MS. YOHN is author of W*hat Great Brands Do: The Seven Brand-Building Principles That Separate the Best from the Rest*.

JENS NORDVIG:

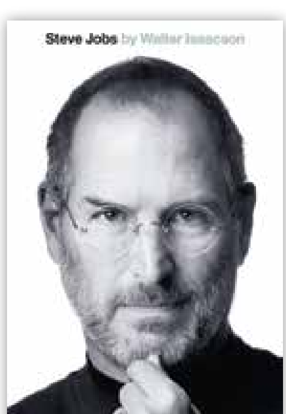
Timothy Howard's *The Mortgage Wars: Inside Fannie Mae, Big-Money Politics, and the Collapse of the American Dream* debunks a number of prevalent myths about what was going on within the government-sponsored part of the mortgage market. Written by a true insider, the book provides a unique account of what actually happened, and how different vested interests were fighting for control both of the market itself and the broader public opinion.



■ MR. NORDVIG is managing director and head of fixed-income research, Americas at Nomura and author of *The Fall of the Euro: Reinventing the Eurozone and the Future of Global Investing*.

TIMOTHY HOWARD:

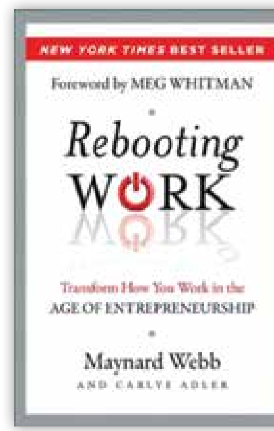
Right after finishing my own book (written on a Mac), I read Walter Isaacson's excellent biography *Steve Jobs*. Jobs was unique, but there are aspects of his character and personality that should be instructive to anyone in business: the intensity of his focus on what it takes to make a great company and products, his ability to forge a corporate culture around his vision and values, and his capacity to recognize and learn from mistakes (of which there were many, all ultimately overwhelmed by his great successes). On the flip side, his legendary inventiveness unfortunately can't be emulated, while his abrasiveness and mistreatment of underperforming colleagues shouldn't be.



■ MR. HOWARD is former vice chairman and CFO of Fannie Mae and author of *The Mortgage Wars: Inside Fannie Mae, Big-Money Politics, and the Collapse of the American Dream*.

ORLY LOBEL:

The top ingredients for twenty-first-century success are raw talent and creativity, coupled with the ability to connect and adapt to competitive markets. For anyone who, like me, is interested in the new world of work and in helping people and institutions become the best that they can be, Maynard Webb's *Rebooting Work: Transform How You Work in the Age of Entrepreneurship* is a vision and a playbook rolled into one. The legendary Silicon Valley CEO takes his passion for mentoring and challenges us to think about what we care about. Webb tackles some of the most important questions about the future of work: the impact of technology on the labor market, the strive for work/life balance, the challenge of sustaining passion and motivation, and the special role of entrepreneurship and risk-taking in the new economy.



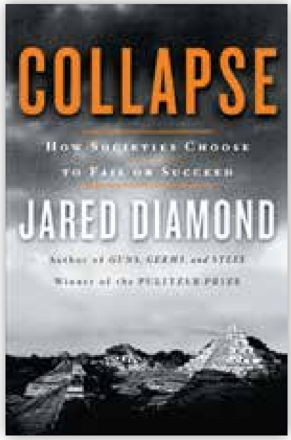
■ PROFESSOR LOBEL is Don Weckstein Professor of Law at the University of San Diego and author of *Talent Wants to Be Free: Why We Should Learn to Love Leaks, Raids, and Free-Riding*.

STEVE YASTROW:

The best business-related book I've read in the last year is Jared Diamond's *Collapse: How Societies Choose to Fail or Succeed*. Diamond describes a number of flourishing societies bringing on their own collapse, best illustrated by the Polynesians on Easter Island who completely

WHAT'S THE BEST BUSINESS BOOK YOU READ THIS YEAR?

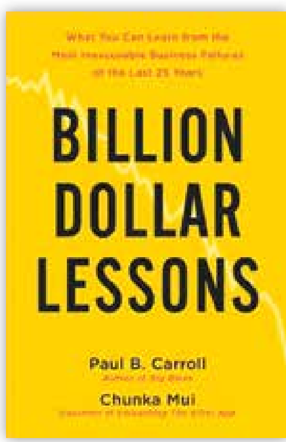
destroyed their habitat in the pursuit of building huge, iconic statues. All companies should learn this lesson: No matter how high you are flying today, it is your choice whether to fail or succeed in the future.



MR. YASTROW is a strategy consultant and author of *Ditch the Pitch: The Art of Improvised Persuasion*.

RYAN HOLIDAY:

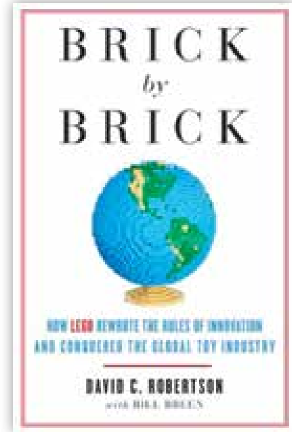
I recently read *Billion Dollar Lessons: What You Can Learn from the Most Inexcusable Business Failures of the Last 25 Years*, a book that stayed with me because it was about failure rather than success. Instead of looking at the few cases where megamergers or roll-ups or expansions worked, authors Paul B. Carroll and Chunka Mui give us countless examples of the times it didn't. The book doesn't blame the individuals either—it blames the strategies (which will give you pause next time you consider them). It's a book that will definitely make you think next time you find yourself flippantly giving business advice or hear a pundit doing the same.



MR. HOLIDAY is author of *Trust Me, I'm Lying* and the forthcoming *The Obstacle Is the Way: The Timeless Art of Turning Adversity to Advantage*.

TIM HALLORAN:

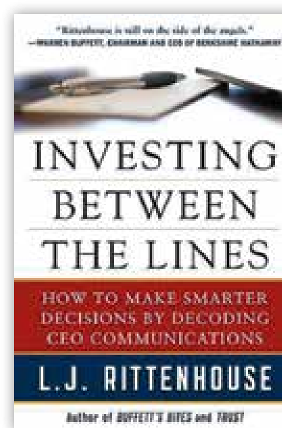
As one who is thoroughly intrigued by the relationships between brands and consumers, I found David Robertson's *Brick by Brick: How LEGO Rewrote the Rules of Innovation and Conquered the Global Toy Industry* a truly inspiring and fascinating account of how a brand can create a truly passionate "romance" with its consumer base. I'm a father of three children under the age of 11, and LEGO never ceases to amaze me as a consumer. *Brick by Brick* reveals the reasons why LEGO has become the strong brand it is today. By focusing on leveraging its own consumer base, kids, to co-create innovative ideas and news, the company takes the consumer relationship to a new level and, as a result, continues to thrive in a children's toy world undergoing a digital revolution. *Brick by Brick* shows how even mature brands, if they continue to truly *understand* their consumer and let them play a *significant* role in their innovation strategy, can grow their romance with the consumer to unprecedented levels.



MR. HALLORAN is president of Brand Illumination and author of *Romancing the Brand: How Brands Create Strong, Intimate Relationships with Consumers*.

JUDITH GLASER:

In a time when candor and transparency in business are low, finding a methodology for evaluating the financial integrity of a company is vital. Now there is one. In *Investing Between the Lines: How to Make Smarter Decisions by Decoding CEO Communications*, Laura Rittenhouse makes the invisible visible—giving readers a way to see beyond the fog of corporate speak and determine the growth or failure trajectories of companies. The Rittenhouse Index has astutely and accurately measured the collapse of Enron and Lehman, among other companies. In viewing the gaps between what companies say in their annual reports and what they are actually doing daily to create value, the reader is exposed to a new framework that has astounding accuracy in predicting corporate success. You will learn to separate the facts from fluff, decode the meaning behind platitudes and jargon, and decipher "fog." With this knowledge, a leader can not only read annual

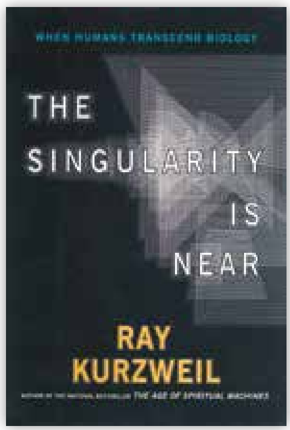


reports with a new eye for truth and candor but also see how to engage in more candid conversations. An eye-opening and fascinating read for those willing to address their corporate blind spots.

■ MS. GLASER is CEO of Benchmark Communications, chairman of the Creating We Institute, and author of, most recently, *Conversational Intelligence: How Great Leaders Build Trust and Get Extraordinary Results*.

LISA ARTHUR:

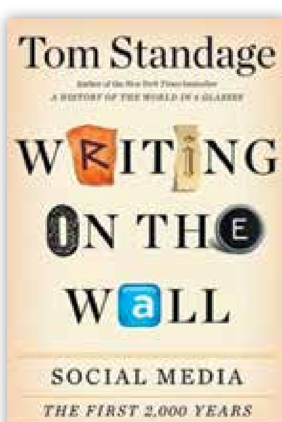
The best book I've read this year is Ray Kurzweil's *The Singularity Is Near: When Humans Transcend Biology*, which underscores the dramatic change we are experiencing in marketing and why it will only continue to accelerate. It also helps underscore the unspeakable bond between customer experience and technology and sparks new ways to think about innovating the experience.



■ MS. ARTHUR is chief marketing officer of Teradata Applications and author of, most recently, *Big Data Marketing: Engage Your Customers More Effectively and Drive Value*.

LARRY DOWNES:

Though it's not explicitly about business, I was inspired by Tom Standage's *Writing on the Wall: Social Media—the First 2,000 Years*. Standage, a master of the history of technology narrative, has a startling thesis: From the evolution of primates to Roman graffiti to the great democratic institution of the coffeehouse, the defining force of human civilization has been our invention of ever-better and cheaper technologies for the collective dissemination of information.



Reviewing in remarkable detail the history of what Standage calls "really old media," it's clear not only why Internet-based social networks, group blogs, video and photo sharing, and services such as Facebook, Twitter, YouTube, reddit, Instagram, and Tumblr have proven wildly popular, but why their success was inevitable.

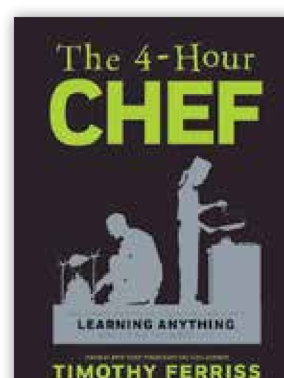
The craze for decentralized information generation and sharing is no fad. Rather, Standage argues, the brief and relatively recent period of concentrated information distribution characterized by dominant newspaper chains, radio, and broadcast television—what we know as "mass media"—is the historical and technological aberration. In business, science, and especially politics, open always wins—eventually.

Whether or not you accept the book's provocative conclusion (I do), the lesson for business is clear: You can't control the flow of information, or expect consumers to accept your carefully scripted marketing messages as gospel. Efforts to manage the message about your products and services are not only impossible but counterproductive. Better to provide customers with all the accurate information you can and rely on human instinct to embrace and promote the best offerings. That is, assuming what you have to offer really is better on some strategic dimension. If not, the market will expose your every scuff and defect, now sooner rather than later.

■ MR. DOWNES is an Internet industry analyst and co-author, with Paul Nunes, of *Big Bang Disruption: Strategy in the Age of Devastating Innovation*.

IDO LEFFLER:

The best book that I read this year is Tim Ferriss's *The 4-Hour Chef: The Simple Path to Cooking Like a Pro, Learning Anything, and Living the Good Life*. The older I get the more I appreciate the need to learn (and learn fast). This book combines two of my passions, food and cooking, combined with a guide to learning skills in the fastest and most efficient way possible. Ferriss is a master of taking difficult skills and mastering them; if you read this book and apply his Meta-Learning techniques, you too will be cooking like a Michelin-star chef in no time (or doing



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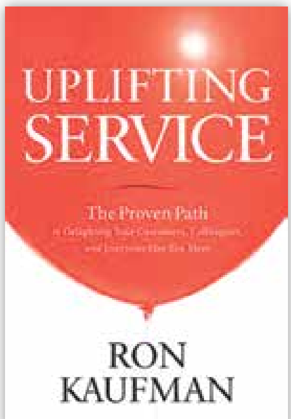
anything else, for that matter). Having been a friend and über-fan of his for years, I was happy to be able to get a glimpse into how he develops his "super powers."

MR. LEFFLER is co-founder of Yes To Inc. and co-author of *Get Big Fast and Do More Good: Start Your Business, Make It Huge, and Change the World*.

WALTER McFARLAND:

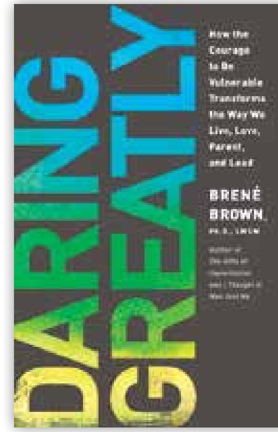


Can organizational culture be changed? What about national culture? If so, how? If you are Ron Kaufman, author of *Uplifting Service: The Proven Path to Delighting Your Customers, Colleagues, and Everyone Else You Meet*, your answer is a resounding "yes." What makes Kaufman's answer (and his book) unusually relevant are the real-life experiences that inform it. Although there are many such experiences and examples of success in his approach, one stands out most for me: his role in helping the nation of Singapore shift its national culture to one focused on customer service. Kaufman started with the national airline and pushed on from there, with the active help of the great government of Singapore. Imagine an American man able to shape the culture of another country. *Uplifting Service* offers real help in how to refocus your organization's culture to one of service. Once implemented, the service culture ensures you better serve your customers, your stakeholders, and each other. If you've been to Singapore, you can see and feel the power of this in action.

MR. McFARLAND is 2013 chairman of the American Society for Training and Development, founder of Windmill Human Performance, and co-author of *Choosing Change: How Leaders and Organizations Drive Results One Person at a Time*.

JEN SHIRKANI:

I read a variety of book types but always look for the leadership lessons within them. My favorite one this year is Brené Brown's *Daring Greatly: How the Courage to Be Vulnerable Transforms the Way We Live, Love, Parent, and Lead*. Too often, especially as leaders, we feel pressure to be perfect, to always have the right answers and deliver on continually successful strategies. It's easy to buy into competitive-scarcity thinking and the pressure that comes with it. Many leaders try to hide their struggles, thinking it will make them look weak or ineffective. Brown reminds us that there is great power in being real, in owning our authentically imperfect selves and in letting humility lead us to greatness. This book is filled with ideas to enhance our communication, engagement, and connection to others.



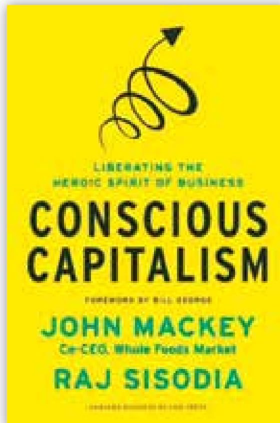
MS. SHIRKANI is CEO of the Penumbra Group and author of *Ego vs. EQ: How Top Leaders Beat 8 Ego Traps Using Emotional Intelligence*.

BOB ROSEN:

Most recently, I've really enjoyed and been fascinated by Brad Stone's portrait of a true leader and catalyst for change: *The Everything Store: Jeff Bezos and the Age of Amazon*. Stone writes a gripping tale about this ever-inventive and highly adaptive leader. In addition to his extraordinary knack for innovation, we're also inspired and encouraged by Jeff Bezos' almost-otherworldly resilience. Has there ever been a more ridiculed executive than Bezos during the early years of Amazon? This book shows how he weathered that difficult time in the company's history, and also brings to life one of his most memorable characteristics: the joyful laugh that bursts from him whenever he learns something new.

MR. ROSEN is CEO of Healthy Companies International and author of, most recently, *Grounded: How Leaders Stay Rooted in an Uncertain World*.

BOB BURG:

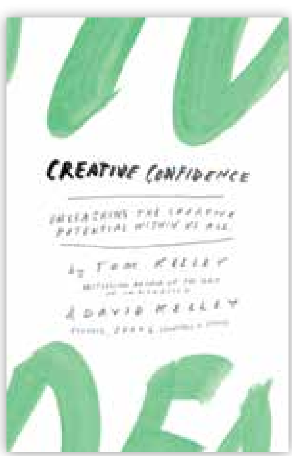


Conscious Capitalism: Liberating the Heroic Spirit of Business is really a superb case study on why companies that honor all of their *stakeholders* and not just their shareholders actually do much better financially than those who don't. It's also a terrific look at how companies can create an enthusiastic and happy team, ultra-loyal customers, and feel great about the value they provide. Whole Foods co-founder John Mackey and Bentley University professor Raj Sisodia show why the companies they call "conscious companies" simply do better.

As the authors magnificently demonstrate, those companies with a higher purpose than simply financial, and who honor all of their stakeholders—employees, customers, suppliers, community, the environment, etc.—actually make substantially more money than those who don't. As is typically the case, when you *focus* on providing value to others, the *result* will be financial prosperity.

■ MR. BURG is co-author of *The Go-Giver* and author of, most recently, *Adversaries into Allies: Win People Over Without Manipulation or Coercion*.

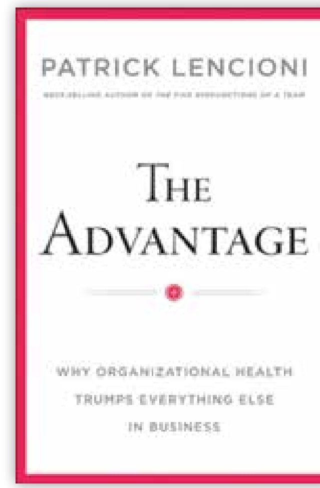
EMANUEL ROSEN:



The best (and certainly the most practical) book I have read recently is *Creative Confidence: Unleashing the Creative Potential Within Us All* by Tom and David Kelley. Think of this book as a personal trainer for creativity: Beginners who describe themselves as "not the creative type" will gain confidence in their creative ability, guided by the authors' years of experience, while those who use their creativity daily will find numerous strategies and tactics to improve their performance (even top athletes have personal trainers). Creativity can be learned and nurtured; it's like a muscle. And the Kelley brothers help readers stretch, build, and develop this crucial skill.

■ MR. ROSEN is author of *The Anatomy of Buzz* and co-author of *Absolute Value: What Really Influences Customers in the Age of (Nearly) Perfect Information*.

STEVE McKEE:



I have found the work of Patrick Lencioni invaluable throughout my career, and his latest work, *The Advantage: Why Organizational Health Trumps Everything Else in Business*, is no exception. Lencioni's perspective underscores my own research surrounding the destructive internal dynamics that take (and keep) companies down. Without neglecting the importance of strategy, he makes a compelling case that even the best laid plans have little chance of success if a company's leadership team is divided or otherwise unhealthy. Not only did I find the book insightful and encouraging—I had my own senior management team read it and work through what Lencioni calls the "Four Disciplines Model," which required us to answer six critical questions necessary to create clarity within our organization. It was an eye-opening exercise that will help ensure my company stays on track for the long term.

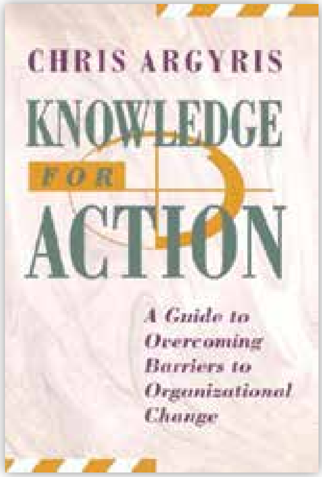
■ MR. McKEE is president of McKee Wallwork & Co., a Businessweek.com columnist, and author of, most recently, *Power Branding: Leveraging the Success of the World's Best Brands*.

JESSE SOSTRIN:

This year I re-read a Chris Argyris classic. *Knowledge for Action: A Guide to Overcoming Barriers to Organizational Change* has been incredibly important to the fields of management, leadership, and organization development because it focuses on the "how" and gives readers a framework to identify and correct "defensive routines" and undermining political and relational problems that so often occur in organizations. His ability to name what was

WHAT'S THE BEST BUSINESS BOOK YOU READ THIS YEAR?

previously so ill-defined has provided a platform for a generation of scholars, consultants, and leaders to understand and resolve stumbling blocks from the world of work that need not remain unknown.

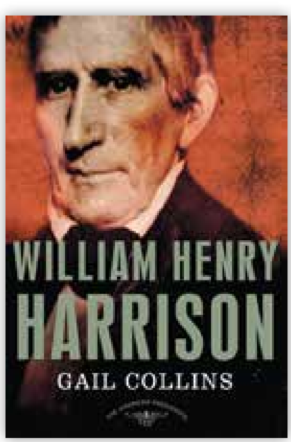


One thing that every leader can take away from Argyris's 1993 book is the ability to look at ways in which adversarial relationships and broken processes can be turned into productive partnerships and successful performance outcomes. The writing's simplicity and clarity lends itself to this kind of practical application, especially considering the elusive subject of "undiscussable" problems. It is the crossover between naming organizational issues, and also delivering tools to address them, that I try to deliver in my writing and consulting.

MR. SOSTRIN is a consultant, coach, and author of *Beyond the Job Description: How Managers and Employees Can Navigate the True Demands of the Job*.

PAUL OYER:

How did you get to the position you hold now? There were surely some random acts that determined your path, many of which you don't even know about. For example, maybe you would have gotten into that "reach" college or business school if not for some admissions officer who was having a bad day.



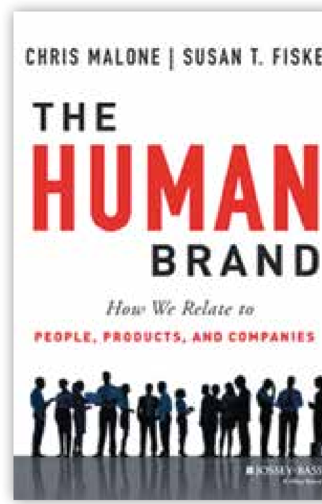
In addition to my interest in the role luck plays in our lives, I've always been a U.S.-presidents trivia junkie, and I have read a lot of presidential biographies. As you might expect, the lives of Washington, Adams, and the like hold valuable and interesting lessons. But I was surprisingly intrigued and fascinated by Gail Collins' *William Henry Harrison*, about the life of our ninth president. Harrison's claim to fame is that he had the shortest tenure of any American president, dying a month after taking office.

Harrison is a fascinating character. His entire career is based on being in the right place at the right time. The book explains how an average guy from Cincinnati can rise to be a war hero and even president of the United States based on a few good days when he was young. There are a lot of CEOs who get on the right track early and a lot of great would-be-CEOs who get derailed early and are never heard from again. Collins tells us all about the life of a man who exemplifies the idea that luck and random events are critical determinants of our individual fates and our collective outcomes.

PROFESSOR OYER teaches economics at the Stanford University Graduate School of Business and is author of *Everything I Ever Needed to Know About Economics I Learned from Online Dating*.

NIRAJ DAWAR:

Chris Malone and Susan Fiske's *The Human Brand: How We Relate to People, Products, and Companies* captures the essence of consumers' relationships with brands. Like their relationships with humans, these are based on the dual dimensions of warmth and competence. Companies today are grappling with the two key challenges in relating with customers: building credible and authentic relationships, and navigating the possibilities of new media and platforms for building those relationships. This book serves as a valuable and thoughtful guide for both challenges: It shows us which relationships are lasting, and it provides a lessons on how to build them.



PROFESSOR DAWAR teaches marketing at the Ivey Business School in Canada and Hong Kong and is author of *Tilt: Shifting Your Strategy from Products to Customers*.

A SLOW TR

ECONOMIST BART VAN ARK SEES GLOBA
JUST NOT AS FAST AS ANYONE WANTS.

"THE GROWTH PERFORMANCE IN MATURE ECONOMIES WILL IMPROVE IN 2014, BUT THAT DOESN'T MEAN WE'RE OUT OF THE WOODS YET." AFTER A DISAPPOINTING 2013, HAMPERED BY CORPORATE HESITANCY AND POLITICAL PARALYSIS, THE GLOBAL ECONOMY COULD USE CLEAR DIRECTION AND STABILITY, BUT THAT'S NOT HAPPENING. YET THINGS WILL LOOK SOMEWHAT BRIGHTER IN THE MATURE ECONOMIES, ESPECIALLY IN THE UNITED STATES, PROJECTS BART VAN ARK, CHIEF ECONOMIST OF THE CONFERENCE BOARD. IT'S THE REST OF THE WORLD—THOSE COUNTRIES WHOSE RAPID GROWTH HAS DRIVEN THE GLOBAL ECONOMY—THAT ARE LOOKING A LITTLE SHAKY GOING FORWARD. "IN THE EMERGING MARKETS, PARTICULARLY IN CHINA, WE'LL SEE A LOT MORE VOLATILITY," VAN ARK SAYS. "AND YOU NEED TO PREPARE FOR THAT VOLATILITY."

For 2014, The Conference Board projects global growth improving to 3.5 percent, with the Euro area moving into positive territory and the U.S. economy picking up from 1.9 percent to nearly 3 percent. As China's transition continues, its growth will likely slow, to a still-hot 7 percent; India is seen as staying stable, growing slightly faster at 4.4 percent; Latin American countries will pick up a little, from 2.4 to 2.7 percent.

With economies facing a wide range of obstacles, and plenty of political and social turmoil, the key to long-term recovery is strengthening growth drivers; this demands that business and government join forces to better direct public and R&D investment and goose productivity. Granted, after witnessing the last year's self-inflicted wounds in Europe (austerity) and the United States (government shutdown), skepticism is practically mandatory. But van Ark is confident about long-run prospects: "Ultimately, the economy will

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

ANSITION

L GROWTH PICKING UP SPEED—

BY MATTHEW BUDMAN

pick up, but the question is when, how, and where."

In the couple of months since van Ark's original 2014 forecast, The Conference Board has pulled back a little on expectations for the U.S. economy, seeing some weakness based on unfavorable weather—both the record heat in the West and the record cold in the East. In addition, we're seeing more volatility than anticipated in several emerging markets, particularly in Latin and South America, mainly due to the effects of monetary tightening.

FOR FIVE YEARS, PEOPLE HAVE BEEN ASKING, "WHEN WILL THINGS GET BACK TO NORMAL AND RESUME HIGH GROWTH?" IS IT TIME TO TELL THEM TO STOP ASKING?

I've always argued that "the new normal," which people started talking about after the recession hit in 2008, is not a good way to think about adjustments after a crisis. There is no new normal: Economies undergo continuous adjustments, partly cyclical and partly structural. Every time is *different*. When you start thinking that you have arrived at normality, things start changing again. When businesses sit still, they fall behind. We need an environment that allows for making those adjustments in a world of continuous uncertainties.

History tells us that it takes about ten years to leave the impact of an economic or financial crisis as we experienced in 2008 behind us. But growth will surely pick up—the question is when, where, and how.

> “IF YOU ALLOW EXPERIMENTATION, LET NEWCOMERS IN, AND ACCEPT FAILURES OF INCUMBENTS, IT SURELY CREATES UPSIDE OPPORTUNITIES FOR GROWTH.”

CONSIDERING YOUR LONG-TERM PROJECTIONS OF SLOW GROWTH, THAT SOUNDS AWFULLY OPTIMISTIC.

Well, you are correct that the model we use for our projections tells us that the long-term trend suggests a slowdown for the world economy. Slowing population growth in most economies plays a big role, and the trends in investment and productivity are not moving in the right direction. But that can all change to the positive, if the right actions are taken: If we can take advantage of ongoing demands from rising middle classes in emerging economies, if we make the investments to deliver on those demands, and if reforms are made so that investments don’t get locked up where they don’t generate much return, then there is a good chance that we can bend the slowing curve.

YOU WRITE THAT BOTH MATURE AND EMERGING ECONOMIES “ARE DRAMATICALLY RESTRUCTURING TO ADJUST TO A SLOWER GROWTH ENVIRONMENT” OVER THE NEXT FIVE YEARS. BUT ARE THEY REALLY RESTRUCTURING? IT SEEMS MORE LIKE EVERY COUNTRY IS STUMBLING ALONG WITHOUT MUCH PLANNING AT ALL.

Yes, there is a lot of adjustment ongoing, much of it under the radar. It feels chaotic and uncoordinated. But if you allow experimentation, let newcomers in, and accept failures of incumbents, it surely creates upside opportunities for growth. Restructuring can be very messy. And in the middle of this, companies need to set themselves up to capture the resulting phase of growth, when it comes.

I think healthcare reform in the United States is a good example. There are few who wouldn’t argue that we need some real, disruptive changes. Reform obviously isn’t going smoothly, and we’ll need to find out whether the current policy change is the plan that will ultimately work or whether it will need to be overhauled by *another* plan. But we’ll end up in a better place than where we were.

The same is true in the banking sector—there's a massive restructuring going on there as well. The Dodd-Frank Act is being executed; the Volcker Rule is now accepted. Globally, Basel III is happening. Many of these changes have negative side effects because banks have to increase their capital requirements to the point where lending is discouraged. But is there anyone who thinks that things were sustainable in the run-up to the crisis? The same can be said of the muddling through in creating a banking union for the Euro Area. Is anyone arguing that we don't need it? Yes, we are in uncharted territory, but muddling through is not a bad outcome for Europe's future.

Now, of course, countries aren't doing enough to coordinate their restructuring efforts. The recent deal at the WTO to cut red tape at the borders is a baby step toward a new multilateral trade agreement but potentially a major impetus to new deals such as the Trans-Pacific Partnership and the Transatlantic Trade and Investment Partnership. In particular, if China would join the TPP in a serious way, that could be a game-changer.

BUT ALL OF THIS IS LONG-TERM, AND AS KEYNES SAID, "IN THE LONG RUN, WE ARE ALL DEAD." READING ABOUT JAPAN AND EUROPE AND INDIA AND EVEN THE UNITED STATES, ONE GETS THE SENSE THAT POLITICAL AND STRUCTURAL ISSUES ARE SO DIFFICULT THAT THINGS WON'T BE RUNNING SMOOTHLY FOR YEARS TO COME. OR IS THAT TOO DOWNBEAT?

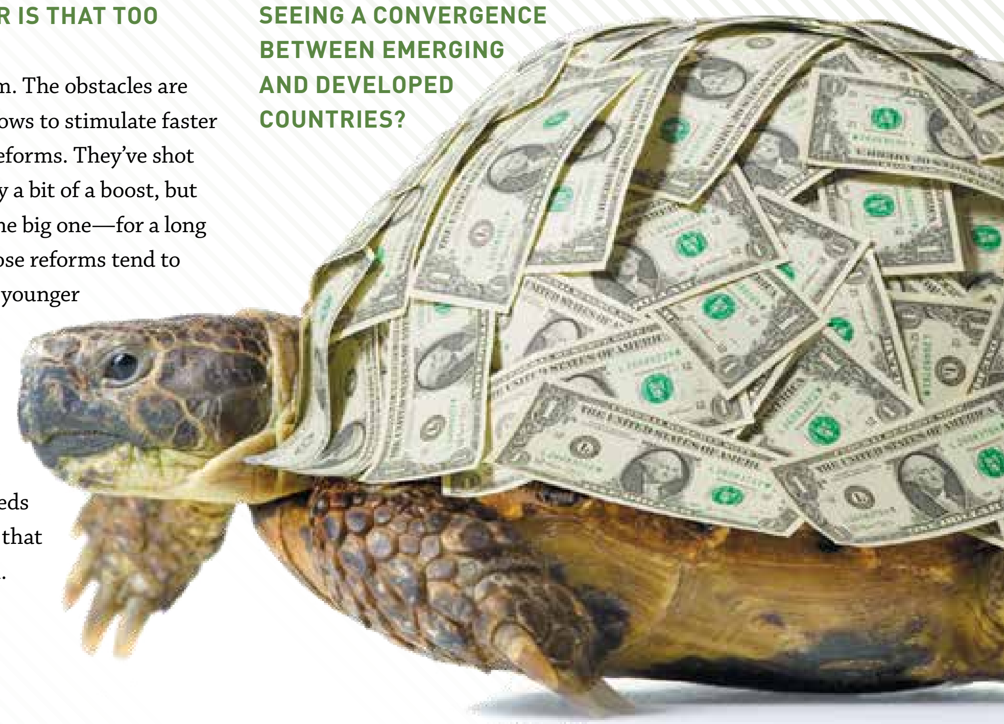
I never said it will be easy in the short term. The obstacles are very real. Take Japan, which has three arrows to stimulate faster growth: fiscal, monetary, and structural reforms. They've shot the first two, which has given the economy a bit of a boost, but they've been struggling with the third—the big one—for a long time. The reason it's so difficult is that those reforms tend to redistribute wealth from elderly people to younger people. That is necessary in order to incentivize the young to take up jobs, be productive, and contribute to the overall economy. But as elderly people are becoming the majority, they are pushing back on this, which is purely rational. So Japan needs charismatic leadership to convince people that the endgame is worth the pain in between.

Europe is struggling with structural reforms because many reforms need to happen at a European level rather than at the level of individual countries. Europe needs to scale up its internal markets to play a larger role in the global economy and to sustain growth and living standards in the longer term. However, as the electorate is very frustrated with Europe and the monetary union, it's hard for policymakers to tell people, "We need more *Europe*." It's a tough sell politically, and the European parliamentary elections are likely to bring out much more controversy about where to go with Europe. But everybody knows that for Europe to grow again we *do* need more Europe.

POLICYMAKERS ARE IN A DIFFICULT POSITION.

We can continue to beat up politicians and policymakers for not doing their job, but really what we need to do is convince electorates that ultimately society will be better off if those reforms are made, that an intergenerational transfer of wealth is in everyone's best interest, that people who are benefiting now may have to give up a little bit more to keep things going. Business should be part of that debate, I believe, and show what it is they can do to create jobs and provide people with a living.

WE HAD YEARS OF THE EMERGING MARKETS DRIVING GLOBAL GROWTH, FAR OUTPACING THE DEVELOPED ECONOMIES. WHAT DOES IT MEAN THAT WE'RE SEEING A CONVERGENCE BETWEEN EMERGING AND DEVELOPED COUNTRIES?



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There are two aspects to that convergence. The first is that we expect the mature markets to begin growing a little faster than in the past five years. Many mature markets still have too high unemployment, underutilization of capacity, and a lot of technology that is not being used. I think we are beginning to make up for at least some of that. That's why our outlook for the United States over the next few years is a bit more optimistic. It's not because the long-term trend is improving—it's because we will ultimately make up for what we lost. It's the same in Europe, which is coming out of a two-year recession, its second recession in five years. It *has* to grow in the next few years.

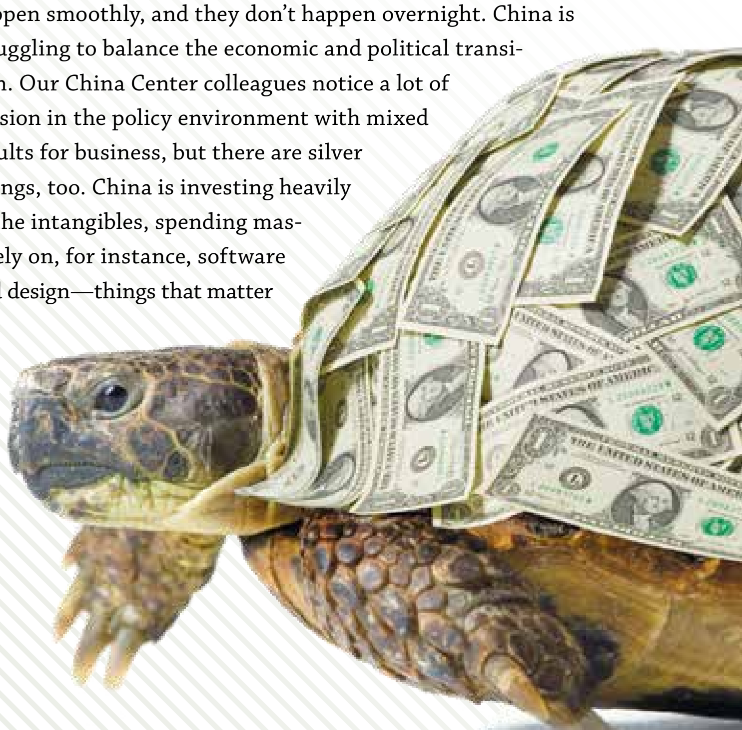
The bigger issue is the slowdown in emerging markets. There are two things here as well. Since the 2009 recession, emerging economies have grown faster than their long-term trend, given their employment and capacity and technology. They've benefited from the massive global liquidity and their own rapidly emerging middle class. But this changed in 2013. Now that the United States is tapering quantitative easing, monetary liquidity will become a little more tight in the global economy, and emerging markets with current-account deficits, like India and Brazil, will need to adjust internally.

The longer-term shift is that many of the larger emerging markets are showing signs of maturing; they are becoming richer. That's a great thing, but when you become richer, you develop needs and demands that lead to the rise of industries that grow more slowly than manufacturing: more services to satisfy people's demands, including better health care, education, and so on. With manufacturing, you add machinery, and you have a lot of innovation and technology. Services sectors just don't grow productivity as fast.

This is a natural process, and ultimately, millions of people will begin asking for products and services of higher value and will ultimately create higher living standards and a better world. So the process of maturing and slowing is good for the global economy. Also, seeing these countries converging means that capital flows will become less volatile and more manageable compared to the rapid flows of hot money in recent years that aimed to maximize interest or capital gains. So the slowing trend is a blessing in disguise: The convergence in the global economy makes the transition process a little easier.

ARE YOU SEEING EMERGING ECONOMIES MAKING THE NECESSARY INVESTMENTS TO EVENTUALLY ESCAPE THE RACE TO THE BOTTOM?

Many governments, notably China's administration, realize that they need to make the transition. But these things don't happen smoothly, and they don't happen overnight. China is struggling to balance the economic and political transition. Our China Center colleagues notice a lot of tension in the policy environment with mixed results for business, but there are silver linings, too. China is investing heavily in the intangibles, spending massively on, for instance, software and design—things that matter

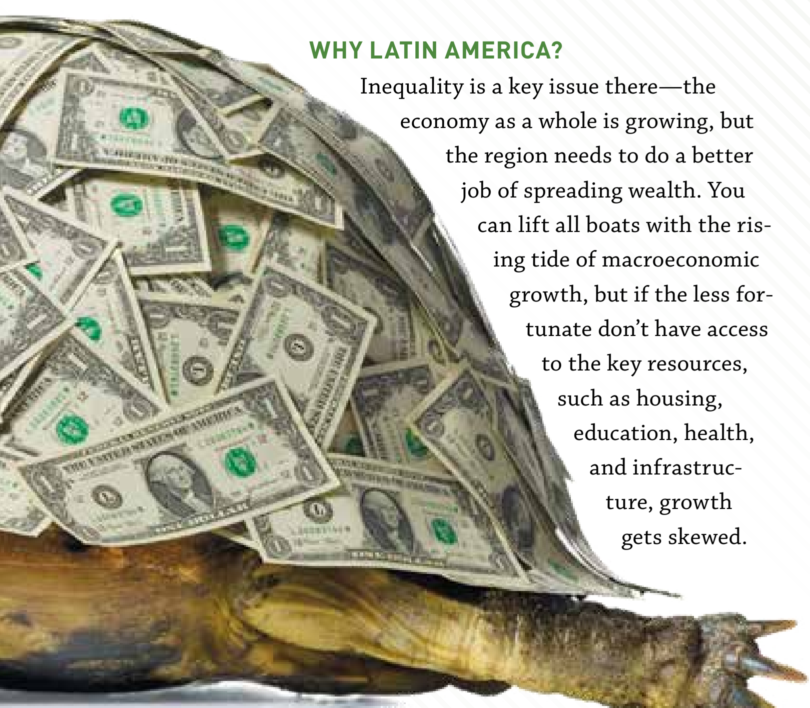


DES TO TURN THEMSELVES INTO”
EN TODAY THEY ARE STRUGGLING.

for a knowledge economy. Much of that investment will turn out to be wasted if the reforms don't happen. Mature economies took decades to turn themselves into knowledge economies, and even today they are struggling.

YOU SAY THAT SOME EMERGING ECONOMIES ARE IN DANGER OF ENTERING A MIDDLE-INCOME TRAP—WHAT IS THAT?

A middle-income trap is when you can't continue to get richer based on low-cost competition but you're not yet rich enough to grow on the innovation and climbing up in the global value chain. Every country's growth model makes the transition from low-cost exports to high-cost exports, from investment and exports to consumers and services. But some countries get stuck—in Latin America, for example, a number of economies have been sitting in a middle-income trap for years.



WHY LATIN AMERICA?

Inequality is a key issue there—the economy as a whole is growing, but the region needs to do a better job of spreading wealth. You can lift all boats with the rising tide of macroeconomic growth, but if the less fortunate don't have access to the key resources, such as housing, education, health, and infrastructure, growth gets skewed. Redistribution policies help a little, but access to the sources of growth is much more important. Brazil made good progress on that during the 2000s, but its investment agenda is now stalling and reforms are slowing. That's an issue that many Latin American countries have trouble with, even though some, like Mexico, work hard to escape a trap.

We've also seen middle-income traps in countries like Thailand and Malaysia, where political constraints often make it hard to free up the economy for foreign investment. And some scholars have targeted China as a potential middle-income trap. But the average per-capita income in China is still low; it's not yet a middle-income country. China's average per-capita income, adjusted for purchasing power, is less than 25 percent of U.S. GDP, even though some East Coast provinces already approach 50 percent and are at risk of a middle-income trap.

BACK IN THE UNITED STATES, LARGE COMPANIES HAVE BEEN WAITING FOR THE ECONOMY TO PICK UP SO THEY COULD RESUME INVESTING AND SPENDING SOME OF THEIR BILLIONS IN CASH—DO YOU GET THE SENSE THAT CEOs HAVE THE RIGHT MINDSET TO MOVE FORWARD IN PRODUCTIVE WAYS?

I have noticed a lot of pessimism among CEOs. In the past few months, when I've done economic-forecast presentations, I often take a poll about my outlook, which is pretty cautious: *Do you think it's too pessimistic, right on target, or too optimistic?* The majority thought that I was either right on target or still a bit too optimistic. Yet, as we have been receiving somewhat better growth numbers in recent weeks, it seems the mood has been changing to a more positive outlook.

Still, there's a lot of uncertainty right now—issues around the implementation of health care and financial reform, for instance—which makes business leaders more concerned about short-term prospects. Things are not moving as fast as they would like them to. Demand growth has slowed around the world, and governments are not making investments to facilitate private investment. There's a global savings glut: People are not spending because of uncertainty. So then economies slow and governments get cautious with spending or even launch austerity programs, and as a result private companies hold off on making investments.

It's a vicious circle that can be broken in two ways. One is to have governments make more public investment, but many are constrained by the need to manage their debt; the other is to see private companies invest, but they will do so only if they see market opportunities. That is why companies need to prepare for the next growth phase. They need some confidence that it is worth taking some risk and be ready to make investments.

Everything now is about public-private partnerships and collaboration, trying to break out of that vicious circle and find a productive way forward. I don't blame CEOs for being skeptical about everything coming together. Incidentally, I think that the tapering of quantitative easing and the rise in long-term interest rates will get companies to rethink how to activate all that liquidity and seek better returns through investment.

SPEAKING OF CORPORATE INVESTMENT: YOU NOTE THAT WE'VE BEEN HEARING FOR SOME TIME ABOUT CLOUD COMPUTING AND BIG DATA ANALYTICS AND HOW THEY'RE ON THE VERGE OF REVOLUTIONIZING INDUSTRIES AND INCREASING PRODUCTIVITY. WHY HASN'T THAT HAPPENED?

Well, the weak confidence hasn't helped. These new IT technologies create huge disruptive opportunities for businesses, and many are trying to figure out what it means for them. These are not the kinds of technological changes that stay in the R&D department—they'll affect the entire business and challenge the business model. Big data and cloud computing are things that the CEO and the C-suite need to think about. So it's taking everyone a lot of time to experiment and figure out how to apply them in different industries. Some companies will get it; some won't. You need to have a long-term view and be sufficiently confident that it will pay off once the economy gets to a happier place. Not everyone, in particular not small- and medium-size enterprises, has the resources to take such large risks.

IS THAT HESITANCY AFFECTING PRODUCTIVITY OVERALL?

In the United States, productivity is not growing fast enough, and has been holding back the recovery. Some of it is because productivity was ramped up during the recession, and you cannot squeeze more out of the labor force. But somehow technology and innovation has not translated into productivity growth. That may have to do with all the reforms and restructuring, which take time to play out, or it may be that the current wave of technology and innovation just is not very productivity-enhancing. However, we are pretty sure that productivity will pick up again in 2014.

YOU IDENTIFY THE BIG CHOICES FOR COMPANIES AS: CHOOSING THE MARKETS FOR GROWTH, MAKING KEY INVESTMENTS, AND RAISING PRODUCTIVITY. AREN'T THOSE CHOICES THE SAME REGARDLESS OF WHETHER GROWTH IS FAST OR SLOW?

Yes, but the dynamics are different. When growth is fast, economies get in a hypercompetition mode. The sky is the limit, but you are forced to move fast, and productivity gains are relatively easy. Companies choose markets based on where you can get double-digit growth. You get very short-term-focused, and the pressure for long-term reforms is limited.

In a slow-growth environment, the focus moves to the long term. It's not a coincidence that we hear more leaders argue in favor of the need for long-term thinking. You look for markets to help sustain your business model; you make key investments for long-term returns. You don't, for instance, immediately relocate production to low-wage countries to try to get a small advantage, because that move would involve long-term costs and risks. But it also makes the way for businesses to think about investments a bit more cautious and perhaps more sustainable.

SPEAKING OF SLOW GROWTH: HOW MUCH DID THE U.S. GOVERNMENT SHUTDOWN AND DEBT-CEILING THREAT HURT GROWTH IN 2013?

It's bigger than I had expected. Kathy Bostjancic, our departing director of macroeconomic analysis, has convinced me that the U.S. economy might have grown 2.5 to 3 percent instead of, at best, 2 percent. We had the expiration of the payroll tax cut at the beginning of the year; that was a big hit, bigger than the sequester. We're still not sure about the impact of the government shutdown on the fourth-quarter results. Consumer confidence took a big hit but rebounded quickly. If the headwinds from policymaking weaken, growth should be somewhat faster next year.

THAT'S A BIG *IF*.

Well, Republicans have seen that a government shutdown doesn't help, and the Democrats have seen that they don't have that much clout. The recent deals suggest they'll muddle through and find some middle ground. But you're right that a grand bargain on a sustainable long-term fiscal plan seems far off.

DID THE SHUTDOWN HAVE A MEASURABLE IMPACT ON THE GLOBAL ECONOMY?

Slow U.S. growth always has a global effect, because it's one of the biggest markets for the rest of the world and can move global interest rates. But I think the United States has lost some of its global influence, simply because it's becoming a somewhat smaller part of the global economy, so the long-term effects may not be as bad as people fear. Having said that, the U.S. dollar will remain a safe haven for much longer than the size of the economy would suggest.

SOME CEOs MAY SEE YOUR FORECAST AS OVERLY UPBEAT, BUT WE'RE ALL *HOPING* THAT YOU'RE TOO PESSIMISTIC.

So do I. In presentations, I often say, "I'm not going to bake into the forecast an optimistic view that all necessary things will get done." So this year we produced a series of growth scenarios for seven major regions or countries in the world; this way we can get a better idea of assessing the upsides and downsides to the outlook.

Some things will get done, and I think there are more upsides now than, say, a year or two ago. If I see our member companies again next year, I wouldn't mind being told, "Things turned out better than you said." But I hate for companies to come back and say, "You gave a rosy outlook, and you got it wrong." So I also hope I am not too optimistic! Don't we all just want to be right? ■

IN A SLOW-GROWTH ENVIRONMENT, THE FOCUS MOVES TO THE LONG TERM.

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WHERE'S THE GOOD PIZZA HERE?

That and other, more serious, concerns your company must address when relocating people.

FORBES RECENTLY PUBLISHED A LIST OF *AMERICA'S FASTEST GROWING CITIES*, AND RALEIGH, N.C., IS NUMBER TWO. The metropolitan area—which includes Cary, Durham, and Chapel Hill—has good weather, a relatively low unemployment rate, and an academic environment that nurtures a pipeline of corporate innovation. The art scene is thriving, Google is considering expanding its high-speed broadband program to the area, and the restaurants really are good, too.

I moved to Raleigh in 2008 because my husband works in the pharmaceutical industry. We have relocated three times during our marriage—and he relocated several times before we were married—and we have always been offered a relocation package that included the basics: general consultation, financial guidance, a list of preferred moving providers. We were also lucky enough to receive concierge-like services that helped us to acclimate to our new community.

Moving is tough for anyone—single, married, couples with kids, bloggers with cats—and searching for answers on the Internet doesn't offer much comfort. It is always helpful to have a team of experts who can answer questions about school districts, civic organizations, and finding the best grocery store with the area's biggest selection of gluten-free products.

Not everyone who relocates domestically has these benefits. Relocation services can be expensive, and many companies have streamlined the process by simply offering a lump-sum payment and a list of preferred providers. Otherwise, employers expect workers to do their own research and make their way to new communities across America. They expect their people to acclimate to new neighborhoods—and new cultures—upon arrival, with little disruption to their professional lives.

Good luck with that. Some relocations are easier than others. Here in Raleigh, immigrants from far-flung places such as Trenton and Omaha are entering the housing market; unfortunately, affordable housing and afterschool childcare are difficult to find. Our local infrastructure is taxed; roads are under construction. Finding a shortcut through the traffic can be tough if you don't know anyone. And I can't tell you how many times someone has said to me, "I love the weather, but I still can't find a good slice of pizza in this town!"

If you manage employees who are considering a domestic move, be prepared to think about the concept of *domestic culture shock*—a feeling of confusion, doubt, or nervousness caused by living in a place that looks like your hometown but is very different from your expectations.

According to Lynda Lescault, director of client services at Dwellworks, a global provider of destination and relocation services, an often-quoted information bite is that relocation is the most traumatic experience that people can go through apart from death and divorce. "Although a domestic move seems simple," she says, "there is still a huge amount of stress. There are many tasks for the employee and family to complete within a short amount of time. Companies can help offset the stress by offering resources of interest to the family, including introductions to the community and assistance with settling into the new area."

Too bad that the concept of domestic culture shock is so far off the radar screen for many leaders that it often doesn't warrant serious consideration. That should change—because unless businesses address the issue, they risk their people failing in new roles as a result of struggling to acclimate to their new surroundings.

"Domestic culture shock is a fairly common condition that most HR professionals should watch for as a consequence of their talent-management strategies," said Jerry Funaro, VP of global marketing for TRC Global Solutions. "Relocation is often considered successful when it is timely and on budget. As long as an employee is in place

on a specific date and there is no major trauma with goods, supervisors and the local HR team are generally happy. But those metrics can be misleading. Relocation can fail if companies don't address the personal needs of the employee and her family. And a failed relocation costs an employer more than the actual cost of transporting goods across state lines."

Whether you offer a lump-sum payment or ask a relocation company to manage the process, a move from Lansing to New York or San Francisco to Huntsville can be deceptively complicated. If there are children or a trailing spouse with his own vibrant career—and if there are credit issues, relationship issues, or problems with the real-estate transaction—the entire process can shift an employee's focus away from the new job and back on to one's personal life.

And then what happens when everything sort of looks the same in your new town but is totally different? For example, Raleigh looks like the suburban enclaves surrounding Philadelphia or Trenton—and we have our fair share of iconic brands such as Walmart and Starbucks—but this town, like any place in the United States, has its share of quirkiness and preferences. Relationships are built on a mix of alma maters and churches. There are preferential and fashionable neighborhoods. And many northerners have seen the movie *Lincoln* but move here and forget that North Carolina was part of the Old Confederacy. So what can leaders do to help transplanted employees adapt?

A successful move starts with a clear understand of the process. Lessault says, "The relocating employee and family should feel that both the logistics of the move as well as their personal needs are being considered. There should be a framework for asking questions and getting clear, fair, honest answers without thinking 'everything they might want or need' is available to them as part of the move."

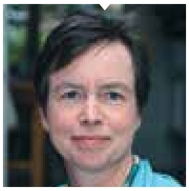
Merry Lee Lison, senior director of HR at TRC, believes that your local HR department should stop worrying about risk and consider treating employees like actual human beings. "Go above and beyond. HR could do so much more to reach out to the family and look at their needs. Think about the employee as the whole employee. Focus on activities outside of the office. Ask your employee about her interests. How does her family have fun?"

But before the move even happens, talent-management professionals can use relocation-assessment tools as part of the candidate-selection process to determine fit, flexibility, and potential conflicts with the localization of the employee. Employers already commonly utilize such assessment tools—measuring attributes such as initiative, patience, sociability, and openness—during international relocations. They should do the same domestically, because the risk of making a mistake by choosing an inflexible, impatient employee can have big consequences.

Still, I wonder what responsibility falls on the shoulders of the transferring employee? All things being equal, shouldn't people know that different parts of the country have diverse and unique qualities? Shouldn't your workforce bear some responsibility for being nimble and adaptable? When a relocation fails, is it always because the company did not address the holistic needs of an employee?

"Employees do have to choose their attitude," Lison says. "Although financial and career decisions are important, it's important to think about your family, your kids, and your spouse."

I like that response. Whenever a newly transplanted Yankee tells me that he can't find a good pizza slice in Raleigh, I push back and offer to take him to a local diner. If you want a good slice, go back to Manhattan. If you want to meet your neighbors and learn a little more about American history, join me over a plate of black-eyed peas, okra, and mac and cheese. And if you ever stop complaining, I might just take you to my favorite pizza joint in Durham. ■



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YOU CAN GO YOUR OWN WAY

There are as many ways to get work done as there are workers.

IT'S TIME THAT COMPANIES DID SOME JOINED-UP THINKING ABOUT THE FUTURE OF WORK. In the age of "anytime, anywhere" work, many employers know they cannot cling forever to an industrial-age model, requiring people to swipe in and out of the office at fixed hours, day in, day out. But in an effort to modernize, companies are hampering their efforts by viewing new work practices through a single lens—either as an HR initiative, an IT issue, or a real-estate-reduction exercise. The digital-age work model should be all these and more.

As my co-author Peter Thomson and I researched the new edition of *Future Work*, it became clear that a more holistic approach to how we go about our jobs is a key missing link for many organizations seeking to adopt new ways of working. The silos and fiefdoms that stand in the way of sharing good ideas in big hierarchical organizations are holding back the wholesale change that's needed.

In some cases, a narrow focus on cost-cutting leads to disillusionment and backlash as businesses forget about employees' needs. In one financial-services company, for example, management hailed the move to "hot-desking" offices in a new quarter of town as a great leap forward for efficiency. But they had failed to get staff on board. The move left many people marooned from favorite shops and lunchtime haunts in the old quarter and with a sense of identity loss in new offices where the company discouraged personal items on desks. For them, the benefits were not at all obvious.

In other cases, employers waste time and effort on parallel initiatives. For instance, a "smart work" drive aimed at cutting office space and a "flexible working" program designed to retain talent can sometimes vie for attention and resources in different parts of the business, rather than be elements of a larger collaboration for the benefit of the company.

Stepping into the brave new world of work therefore demands a shift of culture and mindset: Managers need to be confident enough to liberate their teams to work in ways that work best, which is frequently not the old way. Employees need to take on greater responsibility for delivering results, without the boss checking their every move. And senior leaders need to be the driving force, so that key functions and business units work together rather than pull in different directions.

This is what they're trying at Swiss Re, a 150-year-old reinsurance company, which has recently adopted—and trademarked—an innovative work model called "Own the Way You Work." It's about working smarter, not longer, and managing by results, not face time. The focus is on team members collectively devising new, better ways to work, for themselves and the business.

It didn't start that way. The early impetus was an internal call for tools to support flexible working aimed at attracting and keeping women, a well-worn and well-meaning approach but one that often fails to dent the traditional work model. Swiss Re's global head of diversity and inclusion, Nia Joynson-Romanzina, saw the request as an opportunity to do something much bigger and "future-driven" that could benefit not only women but the organization's entire workforce. She sought executive buy-in and joined forces with other Swiss Re leaders, and as a result, the company is currently rolling out the program across international operations.

A similar approach took place at Unilever, which embarked on its "Agile Working" strategy a couple of years earlier and now has a lot of experience under its belt. Responsibility for implementation lies with a cross-functional team comprising heads of HR, finance, and enterprise and technology. Communications has also played an important role in getting the culture-change message out. The business goals of the initiative are environmentally sustainable growth, cost-cutting, and talent attraction and retention. Hence, campaign slogans proclaim: "Ideas can fly without a plane" and "Don't freeze when it snows." In other words, working from home is fine.

While Unilever would not claim that

shifting the culture has been easy, the company has already seen significant benefits: increased productivity, business continuity in the face of major external disruption, and savings in costs and carbon footprint. One of the most interesting challenges—and opportunities—has been dealing with differences between individuals. The traditional one-size-fits-all model of work minimizes individual differences and tends to squeeze out those unwilling or unable to conform. But the new environment of individual autonomy and accountability is not plain-sailing for everyone either. Some people need more support, or guidance, than others. Some managers (mistakenly) see this as a chance to insist that their teams be available 24/7. A few employees will claim entitlement to being "out of office" on fixed days, regardless of the rest of the team. Unless there is clarity about boundaries and responsibilities, new bad habits can quickly replace old ones.

Meanwhile, corporations must rightly emphasize cross-cultural awareness for managers of virtual teams operating across different countries and time zones. But there's also a need to consider different personality types if we want to optimize collaboration and communication, whether in physical or virtual settings. Here too, it's important for companies to operate in a joined-up way. Occupational psychologists and diversity-and-inclusion specialists are useful partners for designers and architects when planning new workspaces, or for team leaders considering the right mix of media for interacting with their colleagues.

In a previous column, I referred to research by Nigel Oseland, an environmental psychologist and workplace strategist, on the different collaboration spaces preferred by extroverts versus introverts. Recently, Oseland looked at individual preferences based on other personality traits on behalf of Herman Miller, the office-furniture-design firm. He found that people who are especially creative and artistic (the ones who actually design offices!) prefer to meet face-to-face in informal places such as bars, cafés, and "huddle spaces," while those who are more closed-minded dislike informal meeting spaces. Also, people who are more agreeable in nature prefer meeting in groups to generate ideas, although they like to socialize one-to-one.

So, as the trend continues toward "activity-based working," where people can move around an office building and choose the setting most appropriate to the task in hand—café, quiet area, large meeting room, etc.—the next step, according to Oseland, is to design not just for different tasks but for different people. He points out that we "need to provide work spaces that accommodate all personality types and suit the introverts, conscientious and more neurotic, rather than simply build stimulating, open-plan, buzzy environments that best suit extroverts. We need to be cognizant that while we can facilitate behavior change through design, some work settings will never be favored by some of our workforce."

Individualism is becoming a hallmark of the new age of work. As one executive puts it, management in the future will have to be one-on-one, and managers need to learn how to do this. "'Everybody wants to be treated as special," she said. "Companies need to find a way to handle each individual and respond to what's important to them." ■

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MINING THE FUTURE OF PR

It's an art, yes. But don't ignore the science behind it.

EVERYONE'S TALKING ABOUT BIG DATA, EVEN THOSE OF US WITH LIBERAL-ARTS DEGREES. It's suddenly dawned on us that the metaphorical "cloud" into which our digital devices exhaust is an actual orchard of data about our purchases, conversations, and movements, ready for round-the-clock harvesting.

Amazon alone catalogued every detail of the 426 sales per second it made at the height of the last Christmas shopping season. Meanwhile, the who, what, when, and where of our lives—from the measure of our creditworthiness to the age of our automobiles—accumulates on thousands of other corporate servers.

IBM calculates that 90 percent of all the data that ever existed was created in just the last two years. And it's growing by 2.5 quintillion bytes every day. That's roughly the storage capacity of 3.3 billion CDs. And it will increase exponentially over the coming years. Cisco forecasts that 50 billion devices and objects will be connected to the Internet by 2020. Plug something into an electrical outlet and it will report its usage to corporate headquarters when it's not gossiping with all your other appliances.

For decades, that miasma of data was a cloudy soup of 1s and 0s—vast, unstructured, and lying just below the surface of usefulness. But the people who mine data have figured out how to extract meaning from them. In one famous case, Target knew a teenage girl was pregnant before her parents did, based solely on her shopping habits. Mom and Dad weren't tipped off until discount coupons for maternity clothes started showing up in the mailbox addressed to her.

The promise of striking gigabyte gold prompted *Harvard Business Review* to declare "data scientist" the sexiest job of the twenty-first century. It's more than a geeky coding job. Finding actionable insights in data requires a combination of right- and left-brain skills—computation and logic infused with curiosity, intuition, and imagination. PR people like to think they have a corner on the latter and can rent the former whenever they need it.

They're wrong.

When I ran PR for AT&T about a decade ago, we thought we were pretty sophisticated. We commissioned the usual tracking studies and paid an outside firm to monitor media coverage of the company and our major competitors. But all that information came in binders that were about thirty days out of date when they landed in our in-baskets. To identify influencers, we had to count how many times news stories about us mentioned them. We did our long-range planning on a whiteboard in a conference room that doubled as a "war room" for occasional crises.

Today, the PR News Operations Center at AT&T's Dallas headquarters monitors 150 million online sources to measure the sentiment of what's being said about the company and its competitors in real time. The information displayed on screens around the room and accessible to staff anywhere in the world tracks the company's share of voice by topic and geography. It identifies major trends and pinpoints key influencers, tracking the path of a single tweet through cyberspace if necessary.

Brad Burns, AT&T's VP of global media relations, says the center is a "big-time canary in the coal mine," warning the company of developing issues before they become a problem. "But the real value," he says, "is that we can make targeting and messaging decisions based on actual data—what people are saying, how they feel about issues—rather than on gut instinct."

It's also a competitive tool. Not only can the company gauge the reaction to its own news releases—it can track how customers are reacting to a competitor's announcements, providing useful intelligence for sales and media teams.

The system was developed for less than $1 million in partnership with the company's IT department and draws all its input from commercial data services. But Burns declines to call it Big Data.

"I've learned to think in terms of stages. At best, we're working with Medium Data," he says. "We've learned a lot, like the best time to issue a news

release on certain subjects. But there's still a lot we can do, like closing the gap between what's trending online and what we're displaying in our stores, and finding a way to use this data to predict behavior so we can get smarter about things like messaging and even staffing and store inventories."

As a practical matter, such deep mining of Big Data is currently beyond the capabilities of most PR departments or agencies. But a few are nibbling at the edges. Not surprisingly, IBM PR has bitten off more than most.

In a series of what the company calls "social jams," IBM held online brainstorming sessions with tens of thousands of employees, customers, and partners around the world. The sessions weren't flawless: When too many people logged on simultaneously, the system crashed; few of the participants' comments built on each other; and a few cynical postings in the early hours of the first jam prompted a senior executive to suggest pulling the plug on the whole thing. But each jam produced more than a gigabyte of text, expressing people's thoughts and feelings.

Initially, it was more like a library of overturned bookshelves than a thoughtful essay. Then IBM applied its text-mining technologies to the postings. Text mining is a largely unsung subset of data mining. It consists of combing through a large volume of digitized text to find meaningful patterns. Instead of searching for a few predetermined key words, as the AT&T PR operations-center system does, it analyzes all words, categorizing them by meaning. Then it reports the most significant, based on frequency of mention, sentiment, relevancy, and other criteria.

Text-mining technology is just entering adolescence, all hormones and pimples. Even the IBM jams required a narrowly focused question, several iterations of input, and human intervention to arrive at usable results. But the technique has great potential to reveal what really matters to your customers, how they feel about your organization compared to others, and the secret to earning their loyalty and advocacy.

That's why Big Data will increasingly shape the targeting, content, and performance of future public relations, just as it will transform every other corporate function. And that presents two interrelated challenges for PR people.

First, they need to work with senior management in thinking through the ethical implications of gathering and using all this data. I worked at AT&T back when the Internet was just leaving the lab. The economic value of the user data it would produce was already obvious. Less obvious were the boundaries and procedures for storing, accessing, and using it. That ignited a debate every company needs to have. And however that debate is resolved, companies must be transparent about the data they collect, and why they collect it. Tiny-type legal mumbo-jumbo that no one reads won't cut it.

Secondly, within the context of those policies, PR people need to get as comfortable with data as they are with words. They should be plumbing whatever data that they have—Small, Medium, or Big—for actionable insights. And the most obvious place to start is in the world of social media. More than 15 million brands and businesses have pages on Facebook. The chatter on those pages can be either background noise or a flash of insight, depending on one's analytical skills. Chevrolet's PR agency, for example, analyzed the brand's social media "likes," comments, and shares to figure out what topics, timing, and posting lengths generate the greatest engagement.

Unfortunately, too much of public relations is based on gut feelings or past practice. The challenge is to use data—not on the back end of a program in counting clips or measuring outcomes but, rather, on the front end in the development of strategies. The only way to do that is to ignore the buzz and get busy. ■

SIGHTINGS

HOLY SHIP!

COMMERCIAL SHIPPING IS BIGGER THAN EVER—LITERALLY. Container ships, which transport roughly 90 percent of manufactured goods, are growing larger nowadays. After all, the huger the ship, the more goods it can carry, the greater the efficiency. Take the *McKinney Moller*, the first of the Triple E line of megaships built for Denmark-based Maersk. Pictured above, the behemoth is 240 feet high, 1,300 feet long, and 200 feet wide. At a cost of $185 million to construct, the world's largest ship can transport eighteen thousand containers, about twice as many as some older liners. While ships of this size must sail at full capacity to maintain profitability, the industry is nonetheless betting on a super-sized future, as more and more shipping companies are ordering the enormous vessels.

Just don't expect to see a Triple E in the harbors of New York or Baltimore yet. Many ports around the world cannot accommodate the new fleet of mega-carriers. In fact, fewer than twenty ports worldwide—not one in the United States—are currently deep enough to fit a Triple E.

That's changing, though. An increasing number of U.S. cities are investing in their ports' infrastructure. All along the East Coast, governments are working to dredge their ports; the Port Authority of New York and New Jersey is spending $1 billion to raise a bridge to allow bigger ships to pass.

At the same time, industry observers disagree whether the Panama Canal will be able to accommodate a Triple E. That may be especially frustrating, since China's state shipping company recently commissioned the construction of five massive ships capable of carrying up to four hundred more containers than the Triple E. It seems no country wants to miss the boat here. —VADIM LIBERMAN

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NEWS
LIVE THE STORY
WHAT YOU SEE ONLY TELLS HALF THE STORY
Every time I've been in a place where I've heard an explosion, there's something I always notice. Before the fire and smoke, the sirens, shouting and anger, there's this strange moment of stunned silence, where time almost seems to stand still... And then, a second later, complete chaos erupts.
Lyse Doucet
Chief International Correspondent
Watch BBC World News, the 24-Hour News Network
AT&T U-verse | Bright House Networks | Comcast XFINITY | OptimumTV | Time Warner Cable | Verizon FiOS
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