THE CONFERENCE BOARD REVIEW

IDEAS AND OPINIONS FOR THE WORLD'S BUSINESS LEADERS

WILL YOUR PEOPLE BE READY?

EXECUTIVES REVEAL HOW THEY ADAPT TO THE INCREASING PACE OF CHANGE.

POST-ELECTION, IT'S TIME TO RETHINK YOUR POLITICAL SPENDING

AUTHORS PICK THE YEAR'S BEST BUSINESS BOOKS

CEO PAY IS UNDER CONTROL, BUT WHAT ABOUT FOR OTHERS?

THE CONFERENCE BOARD

Winter 2013
www.tcbreview.com

OPENERS

WELCOME TO *TCB REVIEW*! We've revamped our mailing list to put the magazine in the hands of more top executives at companies belonging to The Conference Board, meaning that thousands of people are, for the first time, joining our program already in progress. An introduction is in order.

What this magazine is all about is *questions*. There's a reason why so many of our headlines end in question marks: We see our role as raising issues you might not have considered, helping you step back from the daily to-do list and reevaluate not only how to do your job but how to *think* about your job. As life inside and outside the office becomes ever more hectic, it's all too easy to narrow your focus to the next quarter, the next month, the next eight hours. We're less interested in offering ten tips for organizing your desktop—plenty of articles and books cover that—than in offering fresh perspectives on key business topics.

The Conference Board's reach into top companies' boardrooms and corner offices helps keep us in touch with people's chief concerns, and sometimes we directly tap their expertise and experience. For this issue's cover story, senior editor Vadim Liberman talked with two dozen executives about the challenges they've faced, and continue to face, in dealing with workforce management in the face of constant change.

Also in these pages: Compensation consultant Don Delves charges companies with failing to give employee pay programs the same attention they give CEO incentive plans, and Bruce Freed and Karl Sandstrom explain why now, in the election's wake, is the perfect time for boards and executive teams to seriously consider the impact of their companies' political involvement.

One of the magazine's hallmarks is its full-length Q&As with thought leaders; for this issue, I interviewed Whole Foods co-CEO John Mackey on his vision of "conscious capitalism," and Vadim talked with social-psychology writer Oliver Burkeman about the downside of positive thinking. I also sat down with Bart van Ark, The Conference Board's chief economist, for his analysis of the global economy and where it's headed in 2013 and beyond.

We look for book-length ideas—that is, thinking ambitious and far-reaching enough to deserve publication between hard covers—and it's no surprise that many of our articles originate with books: We interview authors, publish brief excerpts in our Soundings section, and adapt chapters into feature articles. This issue even features our annual Best Business Books compilation, in which recent authors name their favorite recent reads.

Our three columnists bring provocative viewpoints and clear-eyed ways to see business practices today and tomorrow, and we close the issue with our Sightings photo feature, a colorful glimpse of business in the emerging economies of the world. And *TCB Review* doesn't end with page 72—we're online at www.tcbreview.com, where we post Web-exclusive feature articles every month, along with video clips and quizzes and links and archives and enough intriguing stuff to spend any number of hours poking around.

So please take the time to skim through the magazine; check in with the website periodically; follow us on Facebook, Twitter, YouTube, and/or Google+; and watch for our monthly e-newsletters. Glad to have you with us.

MATTHEW BUDMAN
Editor-in-Chief

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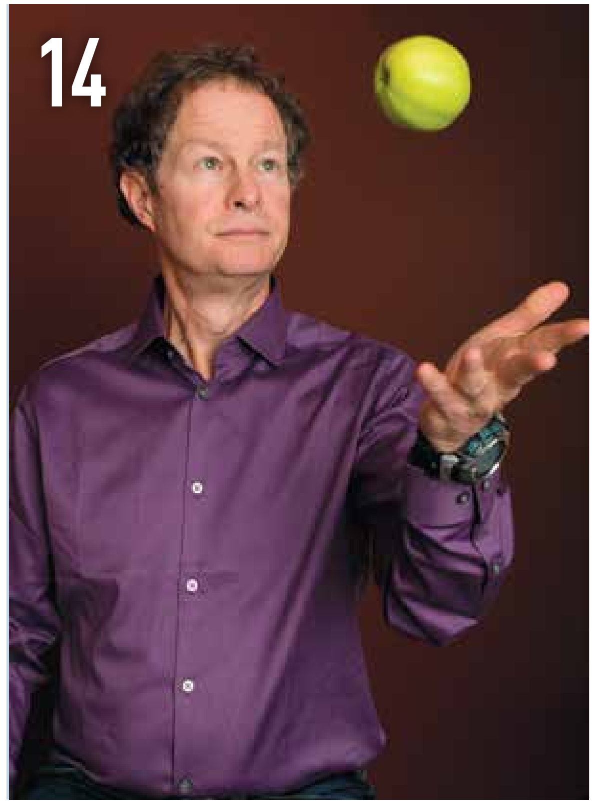

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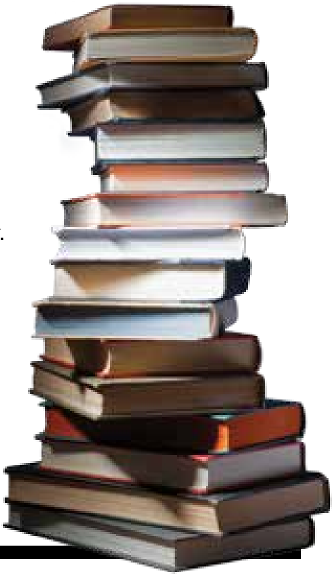

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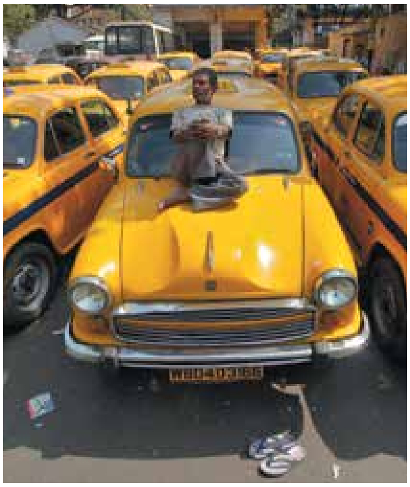

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DIVERSITY & INCLUSION
*Spring Boot Camp: March 5–7 & May 14–16
*Fall Boot Camp: September 24–26 & November 10–12

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Cohort A: April 11–12 & June 6–7

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Cohort A: January 24–25 & March 21–22
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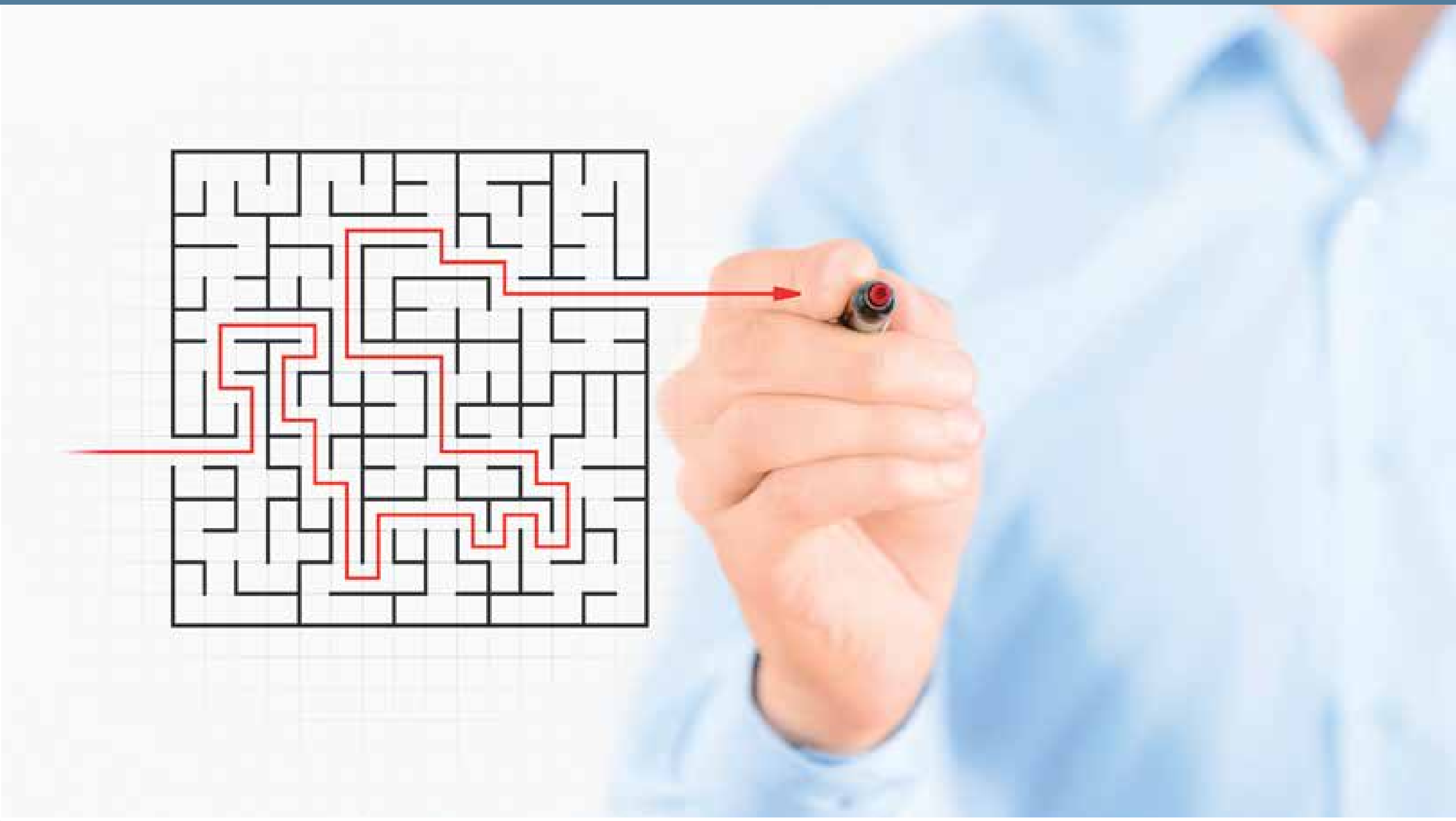


Is It Up to Business To Solve the Toughest Problems?

BY JENNIFER BENZ

JENNIFER BENZ is chief strategist and founder of San Francisco-based Benz Communications, a benefits-communications consultancy. Her last article was "The Benefits of Benefits," in the Fall 2009 issue.

WE'RE ALL TOO FAMILIAR WITH OUR NATION'S THOROUGHLY DEBATED HEALTH AND FINANCIAL PROBLEMS. They frequent the news, permeate boardroom discussions of healthcare costs, and anchor dinner-table conversations as families worry about their loved ones' futures—or their own.

Obesity has reached epidemic proportions—one in three American adults is obese—and is now the leading cause of preventable death. Americans' failure to save adequately for retirement has equally dire consequences, as the coming shortfalls are predicted to widen inequality and social unrest and strain both public and private funding sources.

Absent a major shift in our nation's culture, resolving these issues seems daunting. And can we really expect a culture shift in a nation fueled by fast-food advertising, overconsumption, and easy credit?

Currently, much of the national debate blames our health and financial struggles on bad choices made by otherwise perfectly capable individuals. Such finger-pointing does little for creating viable

→

solutions—and is simply inaccurate. I was encouraged to see Dr. David L. Katz pointing out in *US News & World Report* that "we have no scientific evidence—none—that the current generation of adults in the United States has less personal responsibility, self-control, or willpower than every prior generation."

What we do know is that today's environment is completely different from that of previous generations. Just a few decades ago, you didn't have to try to schedule time in your daily routine to exercise—your job required you to move all day long. You didn't have to seek out healthy natural food—that's all that was available. You didn't have to save for your retirement—someone else took care of that. (And you probably weren't going to live too long after you quit working, anyway.)

Today, the equation is completely different, and the much-blamed individual is working against structural, societal, and economic changes that make the goal of living healthy and planning for a secure financial future increasingly difficult.

Now, I would never suggest there isn't an element of personal responsibility at play here. Of course we all need to take action and do all we can that will help us live the best lives possible. *And* we also need to acknowledge that knowing what to do, being able to act on it, and having the means to do so is not something we are born with or necessarily even taught—and this information certainly hasn't been programmed into and transmitted to us by our culture.

THIS MEANS IT'S EVERYONE'S RESPONSIBILITY TO CHANGE. THAT'S WHERE CHANGING OUR SYSTEMS AND OUR STRUCTURES COME INTO PLAY—AND WHERE WE CAN LOOK TO EMPLOYERS LARGE AND SMALL TO HAVE TREMENDOUS INFLUENCE AND IMPACT.

This means it's everyone's responsibility to change. That's where changing our systems and our structures come into play—and where we can look to employers large and small to have tremendous influence and impact.

Employers have a lot at stake when it comes to the health and financial security of their workforce. Most are spending 20 to 30 percent of compensation on benefits designed to support these issues. All feel the impact of poor health and financial stress on productivity—one of the biggest drains on our businesses and economy. And all have a tremendous opportunity to alter behaviors.

Companies have more power and influence than most people expect. In addition to providing health benefits, they are a trusted source of health and financial information, and they have reach and access to vast numbers of people. They have benefits-plan design levers—from requiring health actions to designing retirement programs that automatically help people save—that can aggressively encourage or force actions. They control the environment in which people spend the majority of their days, from the food available to whether the physical space encourages or discourages movement.

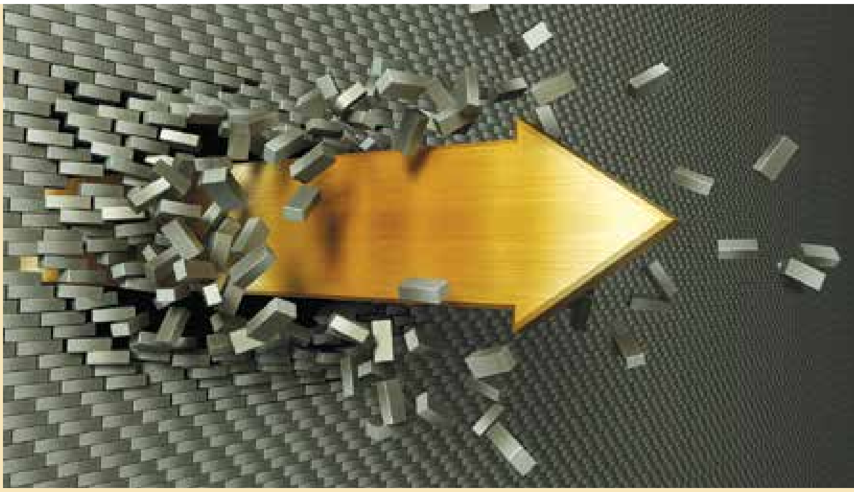
Employers already spend a tremendous amount on a vast array of benefits, including health and retirement benefits. Yet very few make the additional small investment needed to effectively educate employees and their families.

In the spring of 2012, we surveyed almost three hundred HR and benefits professionals to learn how they communicate their health, financial, and other benefits. While an overwhelming majority (78 percent) stated that engaging employees and their family members year round was their top challenge, only about a quarter actually communicate throughout the year. Adoption of modern tools such as websites and social media remains low.

Most startling, only 22 percent of employers document a benefits-communication strategy at all—a crucial step in connecting benefits communication with overall benefits-program and business goals. They are leaving the way their employees perceive and use these costly programs up to chance. Further, the budgets allocated for this communication are by and large insufficient to meet even basic requirements. Two-thirds of respondents, from all sizes of organizations, reported budgets of less than $25,000 a year. That's about the amount a Fortune 500 company spends on health care for only two or three employees.

At minimum, this illustrates a missed opportunity to maximize the value of a precious company resource (the 20 to 30 percent of compensation spent on benefits). It is also a missed opportunity to educate and motivate individuals—and be part of the culture change our country so desperately needs.

To create that culture change, we need to shift our thinking toward helping, not blaming, individuals. And, we need to look to employers to implement the transformative programs that can put individuals, our companies, and our country on the right track.



Keep Moving

BY ELI BROAD

It doesn't matter whether you move first or last as long as you keep moving. Innovation is especially important in today's most dynamic economic sectors. Barriers to entry are low. Initial costs might be nothing more than registering a domain name and getting a decent server. It took decades for Johnson & Johnson to gain its nationwide prominence in the consumer-goods market. It took Google only a few years to blow every other search engine offline. The point is to keep moving, especially now, when everything moves faster.

At SunAmerica, we updated our signature annuity product, the Polaris fund, almost every year subsequent to its introduction. When we launched the fund, we were first movers: The fund was the first to offer middle-class customers the ability to switch their money from fixed to variable annuities and back again without paying a fee each time. That meant when interest rates were high and the market was down, a customer could easily switch over to fixed annuities, which yield a higher return in that climate. If the opposite happened, the customer could move to variable annuities. The fund was also managed by a group of talented investment professionals—something no other annuity company offered at the time. We had to play a careful game of timing to keep ahead of second movers. We didn't want to cannibalize our own products, but we also didn't want to wait for our competitors to beat us.

Not everyone can be an original thinker, but everyone can be a rational one. Innovation doesn't always mean creating something from thin air that needs a patent or a copyright. It just means always looking for ways to improve, sharpen, and evolve what you do—whether it's refining a product, keeping up with new technologies in your line of work, or reaching new customers in new ways, all based on the lessons of the first mover. As I often say, let someone else go first and get the arrows in their back.

■ ELI BROAD is founder of SunAmerica and KB Home. From *The Art of Being Unreasonable: Lessons in Unconventional Thinking* (Wiley). ©2012

Engineering vs. Art

BY SETH GODIN

ENGINEERING HAS A RIGHT ANSWER. It is a consistent set of best practices and demonstrable proofs, repeated again and again until the answer is found.

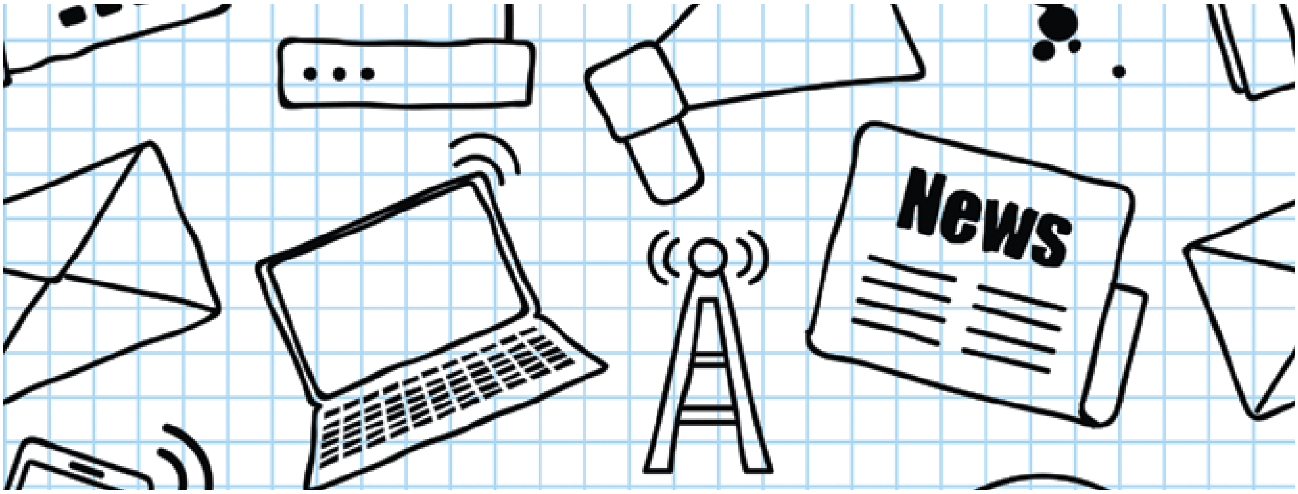
Art has no right answer. Art can work, surely, and it can fail. Art involves the intent of the artist and the reception of the audience. And art involves an unpredictable leap.

It's possible that you have an engineering problem. If you do, go solve it.

If you have an artistic challenge, though, quit looking for the right answer.

Plenty of engineering breakthroughs begin as artistic challenges. The artist sees what hasn't been seen before or has the guts to start with a blank slate. After the artistic leap has been made, the engineers can dive in and optimize and productize the original insight. And yes, even if your job title is "engineer" or "direct-mail executive" or "letterpress operator," it's possible (and even an obligation) for you to be an artist, too.

■ SETH GODIN is the author of more than a dozen bestsellers, including *Permission Marketing*, *Purple Cow*, *The Dip*, and *Linchpin*. From *The Icarus Deception: How High Will You Fly?* (Portfolio/Penguin). ©2012



Spin and Counter-Spin

BY CHRISTOPHER LEHANE, MARK FABIANI, AND BILL GUTTENTAG

In the moments after a crisis hits, it is very unlikely that you can ever be in a position to understand what has truly happened, be in possession of all the facts, appreciate the motives of all the parties, or be able to ascertain variables of which you may not even be aware.

Even in a situation where you *think* you have all the answers, it is usually the case that you *do not*.

Any answer you provide is going to be poked and prodded by the audiences you care about with an extraordinary level of scrutiny. And the slightest discrepancy will be seized upon and magnified. To be brutally frank, any response you provide will be examined with the rigor of a colonoscopy—without anesthesia.

At this moment, you need to ditch the spin—and focus on counter-spin. Communicating in a way that makes it clear you are not engaging in spin will help rebuild trust.

Instead of emphasizing the positive and de-emphasizing the negative, recognize the value of transparency.

Rather than releasing self-selected information to the public, commit to openness when you have information that is ready to be released.

As opposed to blanket denials, make clear that you are fully cooperating with any inquiry.

Unless you are in a position where you can proffer an explanation with the absolute certitude that it will be sustainable, it is almost always better to remember that less can be more when it comes to providing the initial explanation. This is because less information that is accurate is going to do far more good in addressing trust issues over the long haul than an in-depth answer that looks good on paper but does not hold up under the inevitable close scrutiny ahead.

The bottom line is that you simply cannot allow the pressure of the situation to lead to spin that does more harm than good.

We cannot even begin to count the number of times where we have been retained by a large corporation, high-profile individual, or major organization facing a crisis, where the introductory meeting begins with a proud walk through their "war room"—typically adorned with clocks for multiple time zones, a bank of television sets tuned to different cable channels, cutting-edge communications equipment allowing the principals from the far-flung corners of the nation or world to talk with one another, and massive screens featuring websites, Twitter accounts, and YouTube channels—but those in charge have no understanding that what they need to do first is *nothing*—unless it is designed to accomplish the strategic mission of restoring trust.

We want to be clear: These communication tools can be enormously powerful in servicing and supporting the communication of information and ought to be deployed—but *only* when you have absolute confidence that the information you intend to disseminate on these platforms is consistent with restoring trust.

CHRISTOPHER LEHANE and MARK FABIANI are attorneys and PR consultants who have counseled numerous Fortune 500 companies, politicians, and celebrities. BILL GUTTENTAG is an Oscar-winning documentary and film writer-producer-director whose films include *Knife Fight*, *Live!*, *Nanking*, and *Soundtrack for a Revolution*. From *Masters of Disaster: The Ten Commandments of Damage Control* (Palgrave Macmillan).

Going Up?

BY DANIEL H. PINK

ELISHA OTIS'S ELEVATOR SAFETY-BRAKE BREAKTHROUGH HAD A CATALYTIC EFFECT ON MANY INDUSTRIES, INCLUDING THE BUSINESS OF GIVING ADVICE. Almost from the moment that elevators became commonplace, gurus like Dale Carnegie advised us to be ever ready with our "elevator speech." The idea was that if you found yourself stepping into an elevator and encountering the big boss, you needed to be able to explain who you were and what you did between the time the doors closed shut and dinged back open at your floor.

For several decades during the twentieth century, the elevator pitch was standard operating procedure. But times and technology change. In the twenty-first century, this well-worn practice has grown a bit threadbare for at least two reasons. First, organizations today are generally more democratic than they were in the stratified world of the gray flannel suit. Many CEOs, even in large companies, sit in cubicles like everyone else or in open floor plans that allow contact and collaboration. The closed door is less and less the norm. Fifty years ago, the only chance you or I might get to communicate with the company CEO was at the elevator. Today, we can swing by her workstation, send her an email, or ask her a question at an all-hands meeting.

Second, when that mid-twentieth-century CEO stepped off the elevator and returned to his office, he probably had a few phone calls, memos, and meetings to contend with. Nowadays, everyone—whether we're the head of an organization or its freshest hire—faces a torrent of information. The McKinsey Global Institute estimates that the typical American hears or reads more than 100,000 words every day. If we leave our desk for a few minutes to grab a cup of coffee, greeting us upon our return will be new emails, texts, and tweets—not to mention all the blog posts we haven't read, videos we haven't watched, and, if we're over 40, phone calls we haven't returned.

Today, we have more opportunities to get out our message than Elisha Otis ever imagined. But our recipients have far more distractions than the 1853 conventioneers who assembled to watch Otis's public demonstration of not falling to his death. As a result, we need to broaden our repertoire of pitches for an age of limited attention and *caveat venditor*.

■ DANIEL H. PINK is author of *Drive* and *A Whole New Mind*. From *To Sell Is Human: The Surprising Truth About Moving Others* (Riverhead Books). ©2012

How Bad Ideas Become Good Ideas

BY CHRIS BROGAN AND JULIEN SMITH

One reason many people don't have good ideas is that they were never taught how. The average workplace doesn't have to deal with proper idea-creation methods or produce truly excellent ideas. It never has to see ideas compete against one another, either inside the organization or outside in the ecosystem of ideas. It doesn't truly know how to process good ideas, how to improve them, or how they come to exist. Every part of the equation is missing. "Brainstorming" and its stunted siblings are the only ones present in the room.

It is also never exposed to a marketplace of bad ideas. Just as one never truly knows what is funny until one discovers what is not funny and why (like an experienced comedian), one doesn't truly understand how a successful idea becomes successful until one sees similar ideas fail.

The magic of the amateur, or the beginner, is that he can benefit from beginner's luck—the way random individuals can have massive YouTube successes with tens of millions of views, and so on. (They usually try to re-create their one success over and over again. Sometimes this works, but more often it's just sad.) Everyone else needs a process of constant refinement, of exposure to embarrassment and error, in order to galvanize their mind and keep the learning process going.

■ CHRIS BROGAN and JULIEN SMITH are authors of *Trust Agents*. From *The Impact Equation: Are You Making Things Happen or Just Making Noise?* (Portfolio/Penguin). ©2012

The Road to Hell

BY DAVID GEBLER

GOOD INTENTIONS CAN LEAD TO BAD OUTCOMES IN BUSINESS. This is especially true in organizations that have toxic cultures in which leaders tout worthy values—and then put up roadblocks that prevent employees from living those values. For example, if a company claims it welcomes innovation and risk-taking, but then rewards only employees who toe the company line and reinforce the status quo, sooner or later people will simply stop asking questions, innovating, and stretching themselves. Instead, they will conform in order to please their bosses. While the company's competitive edge plummets, leaders may be left wondering: What happened to our core value of innovation and risk-taking?

When we look at companies that have faced scandals such as recalls, ethical violations, or crimes, the problem often comes down to employees whose surprisingly positive behavior was distorted by a toxic culture and clueless leaders. Here are six seemingly benign behaviors that may come back to bite a company if they become exaggerated and throw the organization out of alignment:

Commitment to meeting deadlines. One would think that a company where employees are encouraged to meet deadlines and rewarded for doing so consistently would lead to super-productivity and efficiency. In fact, it can lead to disaster. At Johnson & Johnson, the understood directive to get product to market on tough deadlines created a culture of "Don't ask too many questions" and resulted in a series of dangerous drug recalls that badly sullied the company's reputation.

Excessive optimism. When a person is sick, optimism can buoy his spirits and help healing. When a company is unhealthy, "Everything is going to be OK" is not what you need to hear from those in authority positions. Take David Myers, former controller of WorldCom. By his own account, he saw the problems of the now-defunct company through rose-colored glasses. He simply kept believing—and telling his frightened staff—that the problems would resolve themselves eventually. By the time he came to his senses, he was under arrest for accounting fraud.

Staying focused on a goal. Telling employees to keep their eye on the prize is not intrinsically a bad thing. But when the goal becomes more important to management than the underlying values of the organization, it can lead to a dysfunctional culture. For example, in the 1990s, Sears gave its auto-repair mechanics a mandatory sales goal of $147 per hour. It wasn't long before customers began to be overcharged or sold unnecessary repairs.

Having a competitive mindset. Boeing is known for its highly competitive employees and work culture. That's a good thing, right? Not so in 1996, when the company lost billions in government contracts for ethics violations after an employee stole 25,000 pages of proprietary documents from Lockheed. Flash forward to 2005, when employees were still so competitive that their own work teams were known to keep useful information secret from other teams in the company to make sure they stayed on top. Too much competition can erode cultural values, leading to disaster.

Sticking to a budget. Most managers would be thrilled if their employees were doggedly determined to stay on budget and not cost the company any unnecessary money. But a good intention can go bad when financial performance becomes the only metric that matters. That was the case, many believe, behind the fatal mistake made on the BP oil platform in the Gulf. Before the explosion in April 2010 caused by a safety shortcut, BP's Macondo project was more than $40 million over budget. You know the rest.

Wanting to please higher-ups. What's more attractive than a hard-working employee who wants his bosses to approve of him, based on high performance and outstanding results? A lot, in the case of French trader Jérôme Kerviel at the Société Générale banking group. His need to be liked led to €4.9 billion in massive financial fraud by means of elaborate computer manipulations. Kerviel is thought not to have profited personally from his crimes. He said he was just working to increase the bank's profits and make his bosses happy.

■ DAVID GEBLER is founder and president of the Skout Group and author of *The 3 Power Values: How Commitment, Integrity, and Transparency Clear the Roadblocks to Performance*. From Leading Blog: A Leadership Blog, at http://www.leadershipnow.com/leadingblog.

Branded From the Beginning

BY LIZ NICKLES WITH SAVITA IYER

One of the best ways to get a brand in the game is to be there from the start, literally. Today, there is an infinitely scalable benefit to this because the Web allows immediate and incalculable access to a person's life. Branding starts immediately, when Dad, or whoever is the family chronicler, whips out the video camera or the iPhone and records the baby's first breath. As I write this, the Optimum cable service is running a commercial in which a new parent announces, "She was on Facebook before she was born." Once the video is uploaded onto Facebook's Timeline, a virtual brand is born—and broadcast to the ages.

What kind of branding can a newborn with a theoretically blank slate have? Plenty, for those who know how to create a touchpoint. Homerun to Beth Israel Hospital in Boston, which proudly announced its new delivery—as official hospital of the Boston Red Sox, where its website officially proclaims that "our newborns are all Red Sox babies!" It continues: "From our compassionate nurses to our extraordinary expertise and leading-edge technology, there are many benefits to having your baby at Beth Israel Deaconess Medical Center. As the official hospital of the Boston Red Sox, one more great benefit has been added to the list: your baby will be a Red Sox Baby!"

Families of every baby delivered at the hospital receive a baby cap and canvas bag adorned with the Beth Israel and Red Sox logos. The hospital website features a virtual photo gallery of the Red Sox Babies in their tiny logo caps.

OK, let's grant that that's cute. Especially if you're a Red Sox fan. But let's look closer. You, yourself, are not just a Red Sox fan. You are immediately a Red Sox Family. Red Sox Baby, Red Sox Mom, Red Sox Dad, Red Sox Grandpa—etc. Logo merchandise for everyone! There are forty-three types of Red Sox baby clothes on the Major League Baseball merchandise site. A three-piece starter set is available including logoed bib, bottle, and pacifier. Don't forget the Red Sox diaper bag for Mom and, of course, the logoed stroller blanket. Baby hasn't gotten his first tooth, but he's off to a great start as a brand ambassador for the Boston Red Sox.

I'd like to think that as an experienced marketer I have been immune to immersive branding tactics as a parent. Full disclosure: At six months, my son could recognize the Golden Arches from the highway, and when he saw the picture of Big Bird on his plastic baby bottle, he not only grabbed for it—he went berserk trying to pull the picture off. Twenty years later, Big Bird hasn't figured out a way to keep him in the fold—although I'm sure the Yellow One has ensured a place cribside when my son has his own children one day—but he still pulls over like Pavlov's dog at the first glimpse of McDonald's.

■ LIZ NICKLES is president of the consultancy Black Label Financial Brand Development. SAVITA IYER is a freelance journalist whose work has appeared in *Businessweek*, *Investment Advisor*, and other publications. From *Brandstorm: Surviving* and *Thriving in the New Consumer-Led Marketplace* (Palgrave Macmillan). ©2012

All Work And No Play

BY MARK FIDELMAN

IF I WERE A CONSPIRACY THEORIST, I'D SAY THAT THE GOVERNMENT HAS SOCIALLY ENGINEERED OUR CULTURE TO EMPHASIZE WORK AND DE-EMPHASIZE PLAY. It's all a big trick to collect more tax dollars.

Just look at the differences in work and play from only twenty years ago. When I was in first grade, I could wander around my neighborhood with my friends until nightfall. There wasn't anyone in law enforcement concerned with my "well-being" or safety, and my parents were not setting up playdates. When I was growing up, we just played. No dates, no parental discussions about how the kids got along during the "date," and no parents asking for follow-up dates. Kids just worked things out among themselves without much of a hierarchy. It was a time when people's lives revolved more around their home life and less around their work. Yet today, we plan every second of our kids' lives.

When I was a kid, my father, who worked in technology, went to work at 8:45 a.m. and was home by 5:15 p.m. At work, his boss told him what to do, and he expected my dad to follow his orders. Information flowed top to bottom through written memos, formal meetings, and telephone calls. There wasn't any play, and there certainly wasn't any knowledge flowing back to the top. This was your typical command-and-control culture.

Today, in most high-performing organizations, the situation is beginning to flip—people play at work, and they work all day. While some lament the impact on the family, others applaud the effect it's had on employee satisfaction. These high-performing organizations, like Google, Microsoft, and Southwest Airlines, have evolved their culture to support a more trusting, more transparent, less hierarchical environment that is making the companies more innovative, agile, and efficient.

What these companies have discovered, in their different ways, is the reality of proficiency without control. This democratized view of leadership has upended the deeply held belief that a commanding leadership is the source of all competence. Why, after all, do we insist on employees following our orders, and why do we call it insubordination if they question them? We expect employees to become more competent simply by listening to those above them.

I suspect that this often-used principle of modern leadership—the reliance on command and control—is one of the primary motivators of skepticism about social business, which focuses on socializing employees, breaking down information silos, and empowering employees to take action, make mistakes, and learn from them. The idea that employees can socialize, collaborate, and act without management participation strikes many executives as barbarous, objectionable, and an affront to everything they learned in business.

Yet the companies that are leading in today's world recognize the benefits of an empowered workforce that feels connected to the organization. Empowered employees understand not only how to make great products but, more importantly, how to create cultures that continue to make great products well into the future. That's where their focus lies—in developing cultures in which innovation is connected to every facet of the business. From product development, customer support, and marketing to employee career development, these empowered workers care less about the financial impacts of failed innovation experiments (while of course learning from them) and more about developing high-performing cultures that drive customer value over time.

■ MARK FIDELMAN is managing director of Evolve! Inc., a marketing-communications firm. From *Socialized!: How the Most Successful Businesses Harness the Power of Social* (Bibliomotion) ©2013

Don't Ask for Feedback Unless You Want It

BY RON ASHKENAS

HAVE YOU EVER BEEN ASKED FOR FEEDBACK—BUT HAD THE FEELING THAT IT WASN'T A GENUINE REQUEST?

Take this example: A friend of mine who works for a large global corporation recently sent a note to her CEO, sharing her views on questions that he raised on his internal blog. The next week she received a call (more of a reprimand) from HR asking why she had emailed the CEO. She responded, "Well, the CEO said, 'Let me know what you think.' So I did." Sure enough, that statement was removed in the CEO's next blog post.

Although we usually expect better from a CEO, this dynamic of asking for feedback—but not really wanting it—is very common, whether among family members, friends, or colleagues. From my experience, there are two underlying dynamics for this seemingly contradictory behavior: On the one hand, we've been taught that feedback is a good thing—we want to hear others' perspectives since they might help us enrich our thinking. In addition, asking for input is a way of engaging other people and getting them involved. On the other hand, asking for input means that we might have to change plans or do something differently. Change can be difficult and takes time, so we often resist it.

Naturally, this inner conflict is not always conscious. That's why we might say one thing ("Please give me feedback") but act as though we don't really mean it (getting upset with the feedback). In other cases, we consciously make a decision that we don't want feedback ("The decision is already final"), but feel obligated to ask for it anyway because it's socially or culturally mandated. Then we can at least check off the box about getting other perspectives, and proceed to do what we wanted anyway.

These behaviors, by the way, are much easier to see in other people than in ourselves. That's why we shake our heads or laugh at the CEO example because it seems so obviously hypocritical. However we all behave this way at times. For example, I'm frequently guilty of asking colleagues to give me their thoughts on a project plan, knowing full well that I don't really want to revise it. The end result is that it's probably harder to convince me to do something different than it should be, and oftentimes colleagues don't give me their best thinking because they don't think I will listen.

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Clearly these behaviors don't lead to the most productive or highest-quality outcomes. So to overcome them, here are two guidelines to keep in mind:

Think carefully and consciously about whether you really want feedback, and why. If you truly think that you could benefit from someone else's thinking, then ask for it. But if you feel confident that what you are doing or thinking is already good enough, then it's OK not to ask. In other words, don't ask for input as social convention. Do it only if you mean it.

If you do ask for feedback, be prepared to seriously consider it. That doesn't mean that you have to do everything that's suggested, but you should at least listen and think about it. Then give the person who provided the feedback some acknowledgement or thanks for making the effort (and maybe even an explanation of what you've done with the input).

Asking for feedback isn't always easy. But if you're going to do it, then make sure that you really want it.

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A Crisis of Confidence

BY ADRIAN GOSTICK AND CHESTER ELTON

Temporary loss of belief is inevitable in any dynamic, growing organization.

The hiring of a new CEO, a merger or acquisition, an evolution from private to public status, or a new competitor in your market all can throw even the most effective culture into a tailspin and shake employee confidence. Or consider what happens in an organization when it suffers from a pubic scandal, bad press, weakening revenues, a sinking stock price, or uncertainty about leadership's health.

Ironically, it is the very moment of crisis when the organization needs its people to believe the most—and yet their faith is challenged. Put yourself in the shoes of an oil-company employee during a massive spill, a financial-services worker whose company is under siege by regulators, a manufacturing employee whose firm faces an embarrassing product recall, or a drug-company sales rep after a prescription has been pulled off the market. In the moment when the story breaks, your people don't know whether this is a minor or a major problem, and typically no one from corporate is going to speculate with them.

As the media and online community respond (and perhaps overdramatize), the crisis inflates like a balloon, neighbors even ask about it over the backyard fence, and many of your people wonder whether they can survive the inevitable explosion. It is logical to have doubts and lose belief.

Perhaps you've witnessed this process firsthand: Initially during a challenge, employees are distracted by the possibilities of how the change will affect them. If left unaddressed, this builds into a tsunami of worry. Workers become inert, and at that point many managers see the accelerating productivity slump and start to panic, pouring fuel on the fire. Even if these setbacks are temporary, they can have lasting ramifications for a company's culture and the long-term confidence of employees.

One of the most important things that separate a great company from the pack is the way leaders respond to a loss of internal belief. Great cultures are prepared for these moments of crisis. Though no one can be ready for every disaster, great managers and organizations remain nimble enough to negotiate the treacherous path of reclaiming their reputation externally and the faith of their employees internally.

If they can acknowledge the fears of workers and regain their trust first, the cumulative power can accelerate the return to normalcy for clients, customers, and shareholders. Furthermore, the proper management of an emergency assures employees that their belief in leadership is well founded and often creates a level of trust that is higher than before the crisis. Even dramatic setbacks need not have damaging permanent consequences if leaders acknowledge the problems and openly work to address the slump in morale.

■ ADRIAN GOSTICK and CHESTER ELTON are the founders of global training and consulting firm The Culture Works. From *All In: How the Best Managers Create a Culture of Belief and Drive Big Results* (Free Press). ©2012

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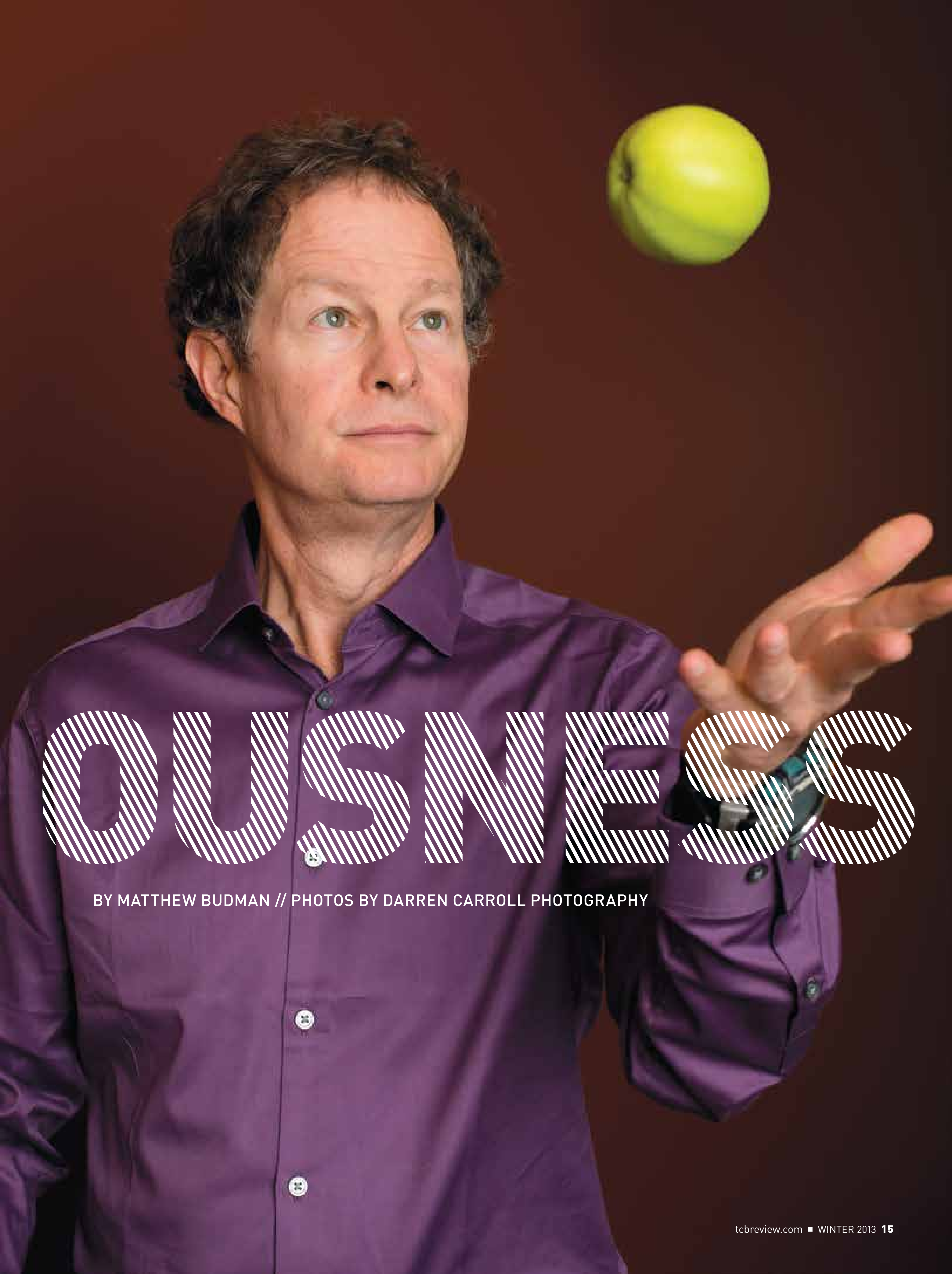
WHOLE FOODS CO-CEO JOHN MACKEY LOOKS TO ELEVATE BUSINESS.

A Higher CONSCI

"DO YOU KNOW HOW MOST CORPORATIONS GET THEIR MISSION STATEMENT?" JOHN MACKEY ASKS. "THEY HIRE CONSULTANTS WHO COME IN AND WRITE IT FOR THEM. SO IT'S NOT AUTHENTIC; IT DIDN'T COME OUT OF THE ESSENCE OF WHAT THAT BUSINESS IS." MACKEY, CO-FOUNDER AND CO-CEO OF WHOLE FOODS, IS SEVERELY CRITICAL OF BUSINESS AS TRADITIONALLY PRACTICED. BASICALLY, HE'D LIKE EVERY COMPANY TO BE RUN AS HIS OWN IS: HIGHLY COLLABORATIVE, EGALITARIAN, EMPOWERING, GREEN, AND CLOSELY INTEGRATED WITH THE COMMUNITY—IN OTHER WORDS, *CONSCIOUS*. BUSINESSES THAT ARE SO ENLIGHTENED, HE INSISTS, WILL NOT ONLY OUTPERFORM COMPETITORS THAT LOOK NO FURTHER THAN THE STOCK TICKER—THEY WILL RESCUE SOCIETY FROM ITS VARIOUS ILLS.

Mackey has spent the last thirty-plus years building a company epitomizing these values and the last several evangelizing to the world in speeches and at conferences; with *Conscious Capitalism: Liberating the Heroic Spirit of Business* (Harvard Business Review Press), written with Raj Sisodia, he expands his thinking to book length. "We believe," they write, "that the way forward for humankind is to liberate the heroic spirit of business and our collective entrepreneurial creativity so they can be free to solve the many daunting challenges we face."



OUSNESS

BY MATTHEW BUDMAN // PHOTOS BY DARREN CARROLL PHOTOGRAPHY

In pretty much every case, Mackey sees "the truth, beauty, goodness, and heroism of free-enterprise capitalism"—very much as opposed to government—as the force driving the economy and society forward. He defends business against critics and its own mismanagement and urges his fellow CEOs toward a broader perspective: "Together, business leaders can liberate the extraordinary power of business and capitalism to create a world in which all people live lives full of purpose, love, and creativity."

Mackey spoke from his office in Austin, Texas.

Why does capitalism need to be any more conscious than it is already?

Conscious capitalism goes beyond the way people have traditionally conducted business. It's a way to make people more conscious of why their businesses exist; if they can become more conscious of their purpose and their role in society, they'll do a better job, and their business will be more successful. That's why we wrote the book: We want the world to be a better place, and we think business has a heroic and important role to play in that. But it can't fully play that role until it becomes more aware of purpose and of stakeholder interdependencies. The world is evolving; humanity is evolving. Business needs to evolve.

Being conscious is all about responsibility to stakeholders, including "society," but you strongly oppose the CSR movement.

Conscious business is not the same as corporate social responsibility. CSR is taking a traditional, profit-centric business model and grafting onto it a social-responsibility department that usually reports up to public relations or marketing, as a way to help the reputation of the corporation.

As long as the purpose of the business is simply to make money, to maximize shareholder value, you'll have a tradeoff mentality.

But it doesn't necessary link to the purpose of the business, whereas the conscious business is *inherently* socially responsible, because creating value for stakeholders and communities is at the very essence of what they're doing. Social responsibility is almost a moot question. *Of course* conscious businesses are socially responsible—that's why they exist! They're creating value for their stakeholders and for the communities that they're part of.

Many businesses that lack that sense of purpose migrate to CSR as a way to deflect criticism coming their way for not being more socially responsible. But if it doesn't tie back to purpose and mission, then it's always going to be off-kilter.

CSR efforts may be grafted on or done mainly for PR purposes, but for existing companies that are profit-driven and not conscious, aren't CSR efforts better than, well, no CSR efforts?

Sure. I'm not going to argue that's not the case. But hopefully it's an interim step to becoming more conscious and getting social responsibility into the core of why the business exists in the first place. As long as the purpose of the business is simply to make money, to maximize shareholder value, you'll have a tradeoff mentality: How much will it cost us to do the socially responsible thing? Is that going to cut down shareholder wealth? How much goodwill will it create? That kind of thinking doesn't really exist in conscious businesses because they're seeking strategies that are win-win-win, that are creating value for *all* the stakeholders. If you have a business strategy that's not creating value for your customers and your employees and your suppliers and your investors and your community, then it's not a good business strategy.

Now, obviously your libertarian principles are no secret, but are people ever taken aback by the melding of a community-based, socially responsible philosophy with antipathy toward government?

Why should anyone be surprised? The connection seems self-evident to me.

But not to everyone else. The typical Whole Foods customer isn't exactly a libertarian.

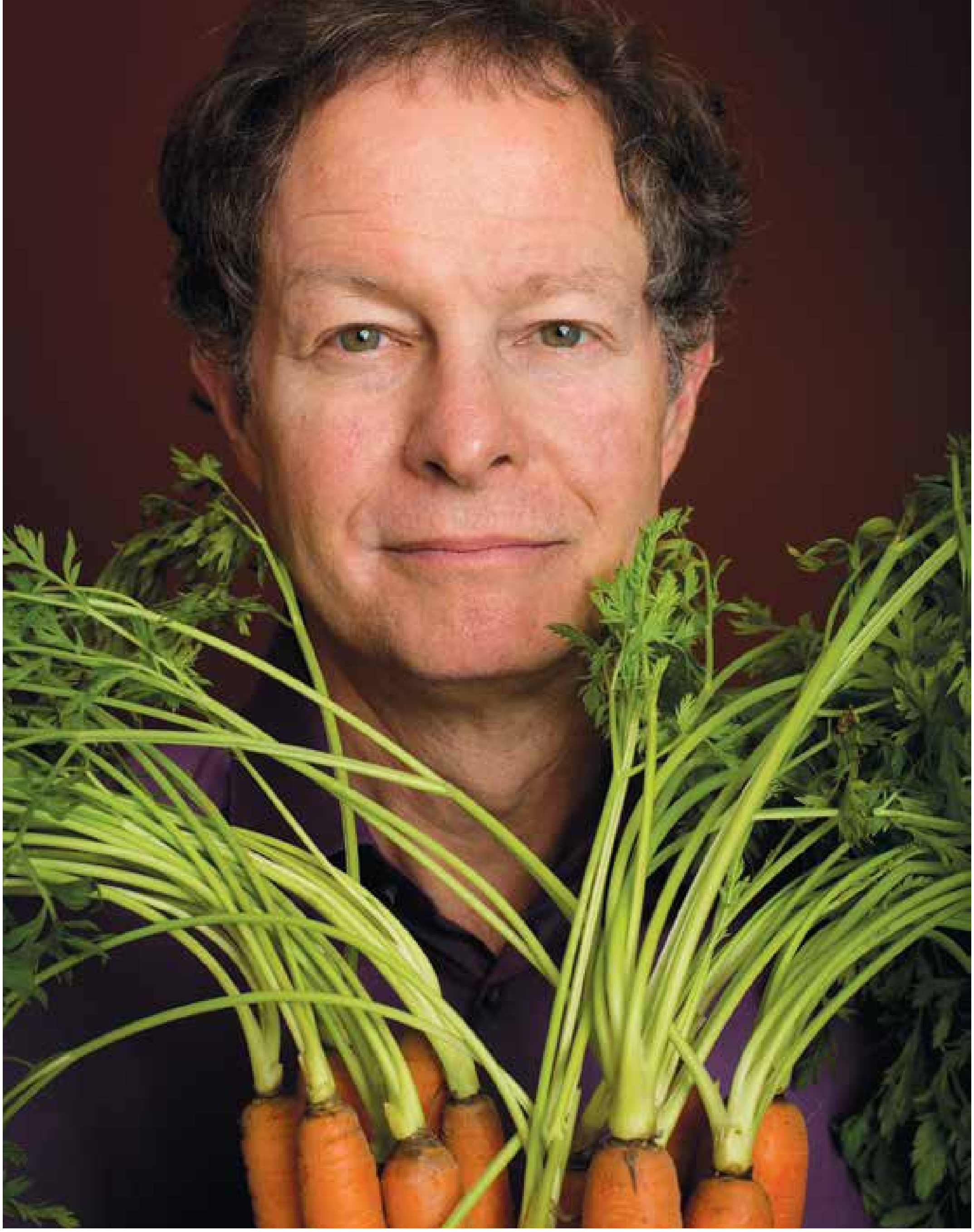
The thing is, capitalism and business have created great value in the world, but today, they have bad reputations. The dominant narrative is that business is selfish, greedy, and exploitative; it cares only about money and has a very low degree of trust. What I believe is that business is fundamentally good but that as it becomes more *conscious* it can become great, even heroic. It can do wonderful things in this world.

We want to change the narrative of the way people think about business and capitalism, but in order to do that, the practitioners have to raise their consciousness and begin to operate in the realm of purpose and stakeholder care, with a different type of leadership. And then it will be easy to change that narrative of business.

How much of that narrative is justified or, at the least, self-inflicted?

Some of it, sure. But business has not done a good job of defending itself. It hasn't had a good narrative about who it is and why it exists. If you're at a cocktail party and you ask what the purpose of business is, people will look at you funny: *What do you mean? Everyone knows the purpose of business is to make money.* But if you ask the question, "What's the purpose of a doctor?" no one says that it's to make money. Of course not—it's to heal sick people. The purpose of a teacher isn't to make money—it's to educate people. Same thing with lawyers and engineers. Every profession refers back to a purpose that creates value for other people that serves the greater good of society.

Well, business does too—only it's bought into the narrative that critics have given to it: that it's fundamentally greedy, that it's fundamentally all about money. And it's not. I've known dozens if not hundreds of entrepreneurs, and almost every one of them started their business not to make money but because they had some kind of dream that they want to have realized, or some kind of passion that they just couldn't help themselves—they were on fire about it. And that's the story that's not being told. So the narrative of business has



to change, because it's been largely written by the critics.

So yes, guess what: There are companies like Enron and WorldCom out there, and Bernie Madoff. There are bad businesses out there, just like there are bad doctors and bad lawyers and bad teachers and bad architects. That's the reality: Humanity's not perfect, and neither is business. But most businesses are good. Most businesses are ethical, and they create value for their customers and jobs for their employees. They're trading with suppliers in an ethical way. They're making money for investors. And they're helping to support government and nonprofit organizations.

But most companies aren't Enron or WorldCom, just like they're not conscious businesses such as Costco and Patagonia and the Container Store. They're somewhere in the middle, concerned primarily with shareholder returns. They may be potentially great companies, but they're far from great now.

Well, that's true. But for every bad company you can name, I can name a dozen that are doing good things in this world. Southwest Airlines has democratized the skies and made it affordable to fly; Google is organizing the world's information and making it readily accessible; REI is reconnecting people to nature; Whole Foods Market is trying to sell healthy food to overcome the diseases of obesity and heart disease and cancer, and to change the agricultural system to make it more sustainable. There are *so many* businesses out there that are transforming our world and making it a better

> There are so many businesses out there that are transforming our world and making it a better place. And yet people aren't aware of it.

place. And yet people aren't aware of it.

Business has done such a bad job of telling its story that the critics define it. So when bad things happen, that gets written up, and people think that's what business is like. That dominates the narrative about business. I want to change that. I really think that business has the potential to be heroic in this world if it can become more conscious of its purpose—its *higher* purpose, beyond making money. It can begin to consciously create value for stakeholders. You'll get a different kind of leader and a different kind of business culture.

You talk about a number of companies that have conscious values: Tata Group, Panera Bread, Starbucks, UPS, Wegmans, Twitter. Most of them are retailers.

Retailers get the stakeholder idea quickly, because they deal with customers on a daily basis, and they know that they can't provide good service unless their employees are happy.

What about companies in, say, finance?

The financial sector will be the last domino to fall. They're the ones who are the furthest away from the principles of conscious capitalism. A Wall Street bank is often dealing just with abstractions; they've gone into a surreal world in which every business can be reduced to numbers, and they think that they can understand businesses just through numbers. I know this because we're a public corporation and I have to deal with financial analysts all the time. The model that a lot of these analysts create is a lot more real to them than the business itself. These guys are all young, they come out of the best business schools, and they're mathematical whizzes. They may not have high emotional intelligence or systems intelligence; they may not have a clue about spiritual intelligence, but by God, they're good at math!

Did you ever see the movie *The Corporation*?

Yes. We even had filmmaker Joel Bakan in the magazine a few years back.

Remember how it portrays companies as basically sociopaths? Of course, most businesses aren't that way. But some of them are, and more of those are on Wall Street than in any other sector. So if our book has an impact on how business operates, it will hit other areas of the economy first.

But I do believe that over time you're going to see more conscious venture capitalists; Whole Foods has been working with a conscious private-equity firm, Leonard Green & Partners. Sure, they have financial goals, but they're investing in more conscious businesses because they think it's a better strategy, that those businesses will create more value. So since Wall Street follows the money and conscious businesses have better returns to shareholders, firms will realize that they should invest in conscious companies. And then conscious practices will eventually filter through their own cultures and their own way of thinking about business. I think. I hope.

What about big companies in other industries, with decades of legacy thinking, that are doing just fine, financially? What incentive do their executives have to raise their consciousness and adopt new mental models?

Well, if they don't adapt, they will eventually fail. Sure, there are legacy companies that have been around for fifty, seventy-five, a hundred years, but a lot of the companies we most admire in the world have existed only ten or fifteen years, or less. Where was Facebook a decade ago? Where was Google fifteen years ago? Or Amazon.com? Even a business like Whole Foods is really not that old. Entrepreneurs don't have a legacy to overcome, and they will eventually outcompete you in the marketplace.

Competition is what forces any business to evolve. And there's a track record of conscious businesses outperforming others financially. So even if you're in an old legacy business and your goal is just to maximize shareholder profit, your best strategy to do that is follow the principles of conscious capitalism. Most companies won't, and I'm not too concerned about that, because they'll eventually fail in the marketplace. Conscious businesses are going to win. That's why I'm so confident that conscious capitalism will triumph in the end: It's just a better way to do business. It works better, and it makes more money for shareholders. So it will spread, almost automatically.

So what you're arguing is that the business landscape is changing so rapidly that what has worked for fifty or seventy-five or a hundred years won't anymore?
As long as these legacy businesses are competing just with other businesses like themselves, it's a pretty level playing field. When they start going up against more conscious businesses, they're at a competitive disadvantage, and they either have to evolve or go extinct.

Who's going to guide legacy companies through the transition?
If a business is less conscious and needs to evolve, sometimes it can't do that from within its own culture. It needs a transformative leader from the outside to come in with a new perspective of consciousness, to help it evolve.

Your book discusses "conscious leadership," but it's hard not to notice that most of the companies you praise are still run by the founders—the people who had the vision in the first place. Is it even possible for a new CEO to come from outside and have the same commitment to a company's purpose, or be able to completely reshape its reason for being?
It's possible, theoretically. It's more difficult. Someone coming from the outside has to be an extraordinary individual who's highly conscious. If a business is already pretty conscious and brings in an outsider who isn't aligned with the culture and purpose, he or she can screw it up. Look at what Bob Nardelli did with Home Depot or Carly Fiorina did with Hewlett-Packard—in fact, look at the series of CEOs H-P has had. Those were both businesses with great cultures and strong purposes developed by entrepreneurial founders, and they've both stumbled because they've made bad leadership choices. The boards failed by not picking more conscious leaders.

Employees are a key stakeholder, and in the book you talk about the importance of employee engagement and hiring people who think of work as a calling. Aren't there plenty of good workers who just want to do their jobs and go home at 5:30?
Of course. But ideally, a business will, over time, attract more and more people to work for it who align with its purpose. Not everyone who works for Whole Foods Market is necessarily into our purpose, but we have a pretty high percentage who are, because we've been cultivating it for decades now, and we attract people who are drawn to it. You can't make people care; you can't make people align with your purpose. But you certainly don't want people who are *opposed* to what you're trying to do in the world. And ideally, you want a high

percentage of people aligned with the purpose and mission of the business.

Does maintaining that require a different kind of people management? You write: "Sadly, too many leaders continue to believe that fear is a better motivator than love."
Most businesses are mostly concerned about control, and most leaders and managers are interested in control. And they've often found that by frightening people you can control them. It can be scary to management to empower people—who knows where the creativity will go? The innovation may be upsetting. The business won't be so tidy. Creativity is messy; it doesn't follow a rigorous path; it goes in unexpected directions. So you can have innovation or you can have control; you can't have both.

Speaking of management and control: The book mentions Jack Welch and General Electric several times as a counterexample, a company driven only by profits and numbers, with a workforce motivated by fear because of forced ranking. But most people consider Welch a great CEO because of GE's shareholder returns.
People hold up General Electric as the prototypical example of a well-managed corporation, but if you want to talk about the paradigm that we're trying to overthrow or replace, there is no better example than GE. While that may have been the way people thought about management in the 1980s, it's a different world today. Those strategies are not the best strategies now for creating shareholder value. GE hasn't created all that much shareholder value in the last decade or so.

OK, I have to ask about your 2009 *Wall Street Journal* op-ed arguing against government-supported health care—and Obamacare in particular—which put you in the public spotlight in an uncomfortable way, and at odds with many or even most of your customers.
Look, op-ed pieces get written every single day. What surprised me about the whole thing was that it became such a big deal. I'm sitting here with Kate Lowery, who tried to talk me out of publishing it; she said it'd be too controversial, and I said, "Don't worry about it, it's no big deal—it's just an op-ed piece." I didn't realize it'd be such a lightning rod. Two months before my op-ed, Steven Burd, the CEO of Safeway—which is a much bigger corporation than Whole Foods—also wrote an op-ed on health care for *The Wall Street Journal*. And it was a nonentity, even though some of the ideas that he mentioned were the same as those I mentioned.

The piece created a lot of publicity for me, a lot of it negative—people began boycotting Whole Foods. So even though it didn't really hurt our sales or earnings, I'm a little more careful now—I've written only one op-ed piece since then, and I had to get a lot of sign-offs on that one before it went out. But we're part of a democracy and of a culture that needs freedom of speech, and I don't see a reason why a CEO of a public company has no right to free speech. I think it's important for a functional democracy that voices get heard, and business voices are not generally heard. In this case, what I said was not welcomed by a sizable segment of the population, so a lot of intimidation and attacks came down.

I think the issue wasn't that a business leader was saying these things—it's that it was *you*. Your customers have a different relationship to the company than Safeway customers have to that company. For a lot of Whole Foods customers, there was a sense of betrayal. To them, you're not just another CEO.
Well, one of my highest values is authenticity. With this book, some people's vision of Whole Foods is going to be enhanced; others will think I'm a jerk. I can't worry too much about that. I'm more concerned with being authentic and honest and saying my truth. That's what I did in that op-ed piece: I said my truth. I was a hero to many people in some segments of society and a pariah to people in other segments.

But I recently reread what I wrote then, and people really overreacted, other than my quoting Margaret Thatcher about socialism being a great system until you run out of other people's money. I think the thing that set people off was when I said that health care is not an intrinsic right. That's the underlying belief of people who want single-payer health care. When I raised the question—what makes it a right? It's not in the Constitution. There's no history of it in America. What's the source of your belief?—that's when they wanted to kill the messenger.

And the healthcare issue is a pivotal issue for our society; it's going to bankrupt us. A big part of our deficit is caused by health care, and I don't see that we've done anything to slow down those costs. I lost the argument, since the political system went in the wrong direction, in my opinion, but if I had done nothing because I was afraid how people might react, then I wouldn't feel good about myself.

I know more about this question than most people do, because Whole Foods has a good healthcare program and a big part of the solution to the overall problem, and I felt obligated to share that with people. If I just buried my head in the sand because speaking out might be bad for Whole Foods in the short run, what kind of leader am I? Not the kind of leader who would have built a $12 billion corporation from scratch. Maybe when people get a fuller taste of who I am as an individual and as a leader they don't like it, but I'm still the guy who's been behind Whole Foods for thirty-four years, and if they like Whole Foods, I get some of the credit for that.

So maybe it was the timing of the op-ed; maybe it was what you said—that the Whole Foods customer base felt betrayed because I turned out not to be the progressive that they thought I was. But I've been consistent for many years; I haven't changed my views. It's just that Whole Foods has gotten bigger, and people are listening to me now!

If the worst ramification is that more people have to sign off on your op-eds, that's not too bad.

I'll write fewer of them. I did write one about six months ago on job creation, and that wasn't controversial at all. I did take out one or two things that might have ruffled some feathers—and no, I'm not going to tell you what those were.

And the whole thing helped develop my systems intelligence: What I say has a bigger impact than I realized, so I need to be more circumspect in what I write. I'm not some maverick who works completely independently of everyone else. I know I represent Whole Foods; I represent our stakeholders. And I want to do that in a responsible way. So I'm going to continue to express my opinions, but I'm going to try to make sure that I'm not saying things that are unnecessarily provocative. I'm not out there just popping off. I'd like to influence the dialogue.

Last question: You envision business taking over many of the roles that government and nonprofits currently play, but don't an awful lot of people feel as though business plays too big a role in their lives already?

If business is conscious, people will feel a lot better about it. And the narrative of business will shift as business embraces purpose, as it consciously creates value for stakeholders, as it creates different types of business cultures and different styles of leadership. People will start to feel different about business. Plus, people already love business for all the products and services it provides. People love their iPhones, they love Google, they love Southwest, they love Whole Foods Market—they love corporations that do a good job and provide the goods and services they want at prices they think are reasonable. What society needs is a more conscious business sector that's taking more responsibility.

And yet business can't do everything. The nonprofit sector is particularly important. I'm on five nonprofit boards of directors, and nonprofits *get* purpose; they understand purpose. What they can learn from business is effectiveness and efficiency, and what business can learn from the nonprofit sector is purpose. And because business and nonprofits are failing in so many ways, we have government come in and try to do everything. And yet bureaucracies are remarkably ineffective at doing much of anything. Everything is politicized; everything takes too long and is too expensive. I see government getting into all kinds of areas where it's not any good; it needs to be constrained to the areas in which it can add real value.

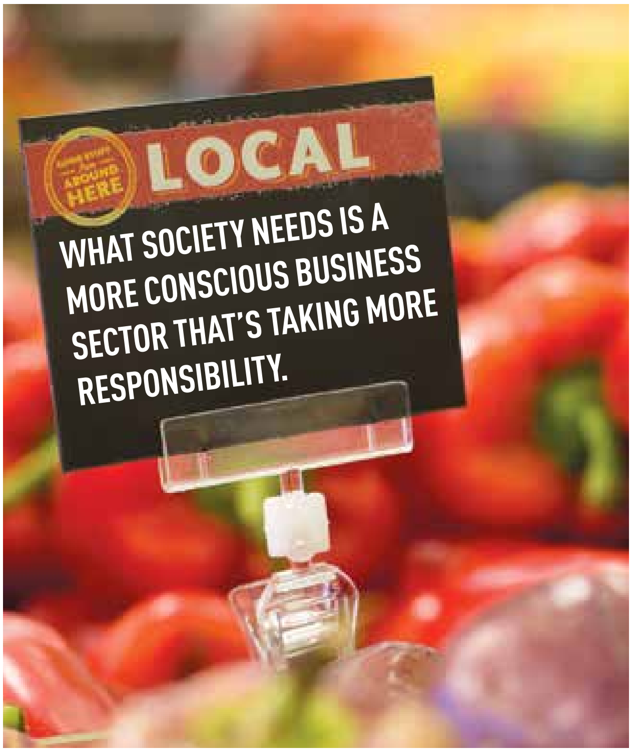
One of the next books I'm writing with Raj and another author will be on the conscious society, and we'll get into your question in depth. It's a three-legged stool: The good, healthy society will have a conscious business sector, a vibrant nonprofit sector, and a vibrant governmental sector, all in balance with each other. The whole society needs to evolve. If you look around at trust in our society . . . name any institution in our society that's highly trusted. Can you name one?

As much as I would love to say "the press," I can't.

No! You cannot trust the press! People always think the press is spinning them; they think it's ideological. Seriously: Do they trust the government? No. Do they trust corporations? No. Do they trust our educational system? No. What do they trust? Absolutely nothing. The whole society has to rediscover purpose; it has to realign itself around deeper values and do it in a conscious way, if we're going to renew ourselves.

This sounds like at least several future books.

If I have time. ■





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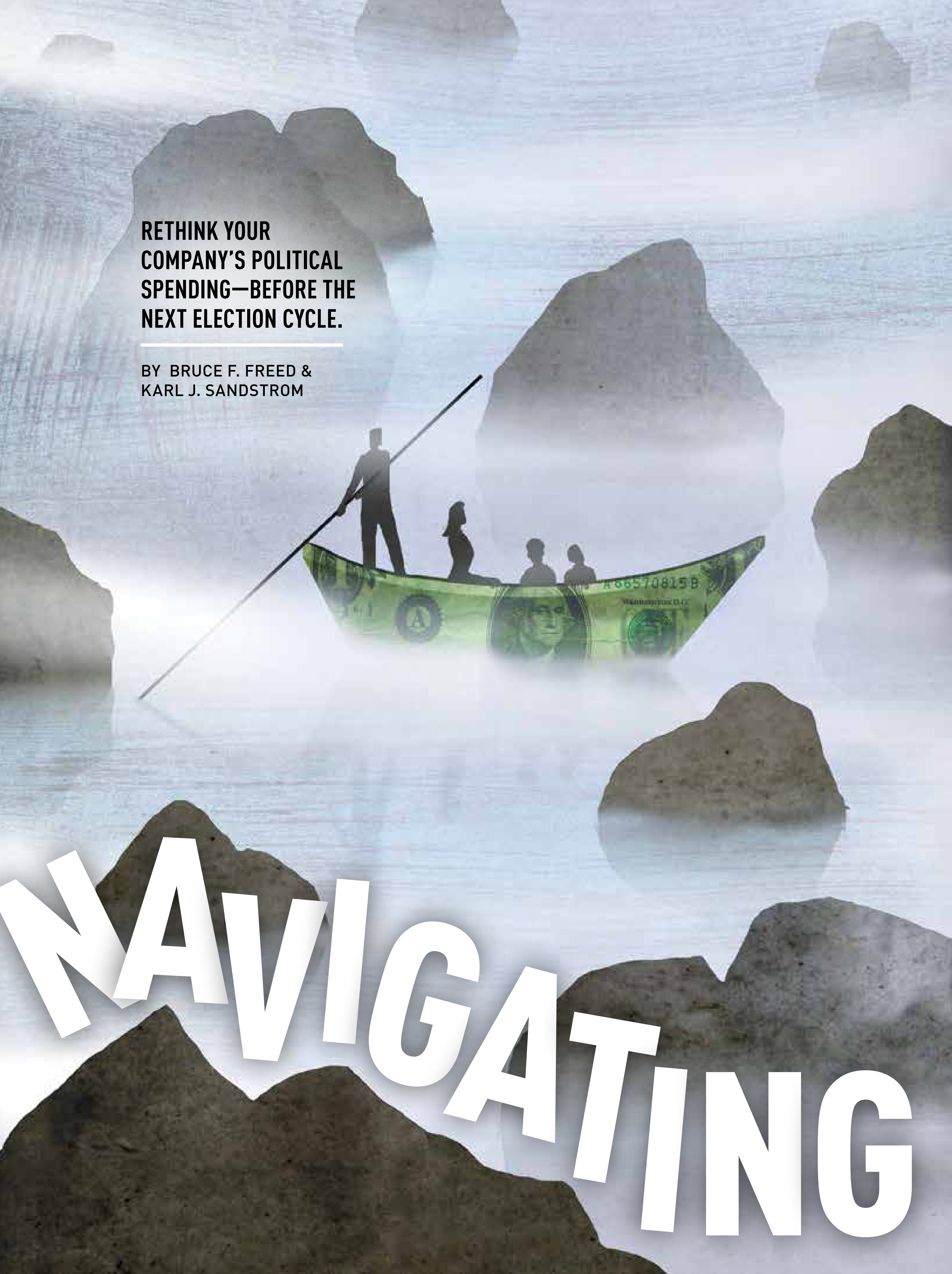
NAVIGATING

RETHINK YOUR COMPANY'S POLITICAL SPENDING—BEFORE THE NEXT ELECTION CYCLE.

BY BRUCE F. FREED & KARL J. SANDSTROM



■ BRUCE F. FREED is president and co-founder of the Center for Political Accountability. KARL J. SANDSTROM is counsel of the Center and of counsel to the political-law practice of the Washington, D.C. office of Perkins Coie. They both serve on the advisory committee of The Conference Board Committee on Corporate Political Spending and co-authored *The Conference Board's Handbook on Corporate Political Activity* and, in the Winter 2012 issue, "Dangerous Terrain."

THE ELECTIONS ARE OVER, BUT THE AFTEREFFECTS OF ALL THOSE NEGATIVE ADS LINGER, BOTH FOR SHELL-SHOCKED TV VIEWERS AND FOR CORPORATE DONORS THAT GAVE MILLIONS TO PUT THE THIRTY-SECOND SPOTS ON THE AIR. IN BOARDROOMS ACROSS THE COUNTRY, EXECUTIVES AND DIRECTORS ARE TAKING ON UNCOMFORTABLE QUESTIONS ABOUT THE MONEY GIVEN TO SUPER PACS, TRADE ASSOCIATIONS AND 501(C)(4) "SOCIAL WELFARE" GROUPS RATHER THAN TOWARD OPENING NEW MARKETS OR RESTORING EMPLOYEES' 401(K) MATCHING FUNDS.

- Are executives pleased with the increased prominence of business in electoral politics? Notwithstanding the *Citizens United* decision that made it easier for companies to give money secretly, the issue of corporate involvement in politics has never been more public.
- Will companies feel a need to explain to their shareholders why certain candidates were supported and others opposed? Will directors and senior managers even be aware of the legal, policy, and regulatory agendas of the candidates that corporate funds were used, directly and indirectly, to advance?
- Will those that devoted substantial resources to politics have buyer's remorse when they discover that a number of their preferred candidates share neither the company's values nor its public policy agenda?
- And maybe most importantly, will companies be pleased with a campaign financing system that is cloaked in darkness? Or will they find that secret funding exposes them to shakedowns by powerful political figures?

Many companies have already begun to grapple with these questions. Leading corporations are recognizing the legal, business, and reputational risks involved in political spending and are choosing transparency and accountability over secrecy and presumption. Voluntary disclosure and board oversight of political spending is increasingly a mainstream corporate practice. Companies recognize that an increased role in campaigns must be accompanied by greater responsibility for how that role is exercised. Today, more than one hundred large public companies, including more than half of the influential S&P 100, have adopted political disclosure and accountability policies. They include Merck, Microsoft, Aflac, Exelon, Time Warner, Gilead Sciences, and Wells Fargo.

Elections have consequences, and management and directors need to look more broadly at their role and responsibility as significant actors in our nation's political life. Corporations can no longer narrow their understanding of political spending to the signing of a check—they must realize the effects of their contributions down the long roads and intersections of politics, business, and society.

POLITICS

Real consequences flow from a company's decision to devote resources to campaign activity. Whether as a result of unawareness, miscommunication, or what businesses may have come to think of as part of the "price" of having a seat at the table, company funding of campaigns can be contrary to the company's interest in both the short run and the long run.

For example, the Pharmaceutical Research and Manufacturers of America (PhRMA), the drug industry's principal trade group, gave $4.8 million in 2010 to two GOP-leaning 501(c)(4) organizations that used the money to support twenty-three successful congressional candidates. More than a few major drug companies manufacture and market contraceptives, but *every one* of those twenty-three representatives later voted to limit access to birth control, cut federal funding for it, and cut medical research funds on which pharmaceutical companies depend for their long-term health.

PhRMA was in the news again this past summer, when after a Bloomberg report about those contributions, angry investors wrote to Merck, Pfizer, Johnson & Johnson, and Bayer AG—all leading producers of contraceptives—to complain about the companies' membership in the trade association, which had taken "actions that are contrary to their members' interests," in a "case of a trade association using its members' payments against those same members' best interests."

Political spending should not be a casual decision, a choice defaulted to companies' government-relations managers—or to trade associations or c4s. The spending, whether done directly or through third-party groups, needs to reflect the deliberate choices of senior managers and the board. When it comes to political engagement, a company must adhere to its values, keep its broader interests in mind, and understand that giving money to candidates or entities whose behavior is uncertain or at odds with those values and long-term business interests ultimately harms the company and its shareholders. To understand political spending fully is to understand its full consequences.

MANAGEMENT TEAMS NEED TO DEFINE THEIR COMPANIES' POLITICAL AND POLICY GOALS AND HOW THEY CAN BEST BE ACCOMPLISHED WITHOUT SACRIFICING THE COMPANY'S VALUES, INTERESTS, OR INDEPENDENCE.

LIVING BY PRINCIPLES

The three years since *Citizens United v. Federal Election Commission* have seen the campaign-finance landscape transformed, with hundreds of millions of dollars of secret money contributed and spent. Super PACs, trade associations, and 501(c)(4) groups all promise donors anonymity while offering access to major political figures; those asked for contributions find it increasingly difficult to distinguish between these organizations and candidates and officeholders themselves. While publicly disavowing that they are operating at officeholders' behest, these entities privately reassure the donors that their contributions will not go unnoticed. The public is kept in the dark, but the beneficiaries are not.

As political operations become more sophisticated and less transparent, companies must be smarter about their investments—and more wary about where those investments go. Management teams need to define their companies' political and policy goals and how they can best be accomplished without sacrificing the company's values, interests, or independence. That requires companies to retain greater control over and have knowledge of the use of their funds.

Whether spending directly or through a third-party advocacy group, a company must broadly deliberate and consciously decide which candidates it chooses to support and what outcomes are in its broader interest and align with its values. Some companies, such as Intel and Time Warner, exercise board oversight and often involve outside counsel. Whatever the particulars, senior executives should make political accountability an integral part of the way they manage, make decisions on, and oversee their company's political spending and participation in the political and legislative process. Boards also should make political accountability a matter of company policy.

TRADE THIS, TRADE THAT

Although most trade associations do not engage in political spending, there is no way to discuss political spending without discussing these organizations, considering the important role that some leading associations have come to play in the political arena. As noted in The Conference Board's *Handbook on Corporate Political Activity* (which we co-wrote), it is critical that trade associations inform corporations when spending their contributions or dues on political activity. It's all too easy for a corporation to unwittingly end up supporting politicians or political causes with which the company may not want to be associated or whose positions and votes may be contrary to the company's values and interests.

In this magazine a year ago, we examined the risks of outsourcing political-spending decisions to third parties and explained how a company effectively cedes control of its money when it contributes to an outside group. When it cannot control the message or recipient, a company opens itself up to potential scandal or conflict—while remaining accountable to shareholders, customers, and employees on how the money is spent.

We also argued that there is an elevated risk of misalignment between a trade association and a company when the company and its investors are kept in the dark about or may ignore the association's political expenditures. This misalignment goes to the heart of our discussion here: *understanding a company's broader interests and ensuring that its trade associations and other groups do not engage in activities or use its funds in ways that are at odds with its stated values, public-policy needs, business objectives, and broader societal interests*.

Trade associations' incongruous political activity can go beyond supporting candidates who espouse contrary positions. Consider the issue of climate change. In 2009, a number of high-profile companies quit the U.S. Chamber of Commerce over its opposition to—and the campaign it mounted against—federal greenhouse-gas legislation. Even some energy utilities, including Exelon, Pacific Gas & Electric, and PNM Resources, publicly resigned and endorsed the Obama administration's cap-and-trade legislation. Exelon CEO John Rowe declared: "Because of their stridency against carbon legislation, Exelon has decided not to renew its membership in the U.S. Chamber this year." PG&E denounced the association's "extreme rhetoric and obstructionist tactics." But other companies, such as Dow Chemical and Duke Energy, remained members despite their reservations—and saw their Chamber dues used to oppose the legislation they supported. The association's lobbying helped to ultimately kill the cap-and-trade bill.

Then there is the seemingly simple case of America's Health Insurance Plans (AHIP), the national trade association representing the health-insurance industry. In 2009, it publicly supported the Affordable Health Care Act, at least partly since the act promised to significantly expand the market for member companies. Nevertheless, in both elections since, the AHIP has spent substantial sums supporting candidates who vocally oppose the law. In fact, *National Journal* recently reported that in 2009 and 2010 the nation's biggest health insurers quietly gave more than $100 million to the Chamber, with the goal of killing or significantly modifying the legislation.

SOMETIMES EXACTLY WHOSE INTERESTS ARE BEING LOOKED OUT FOR CAN TAKE TWISTS AND TURNS.

Sometimes exactly whose interests are being looked out for can take twists and turns. In 2010, the Chamber spent about $30 million helping to elect new "pro-business" congressional candidates, but a year later it found itself asking those representatives to support an issue they had campaigned on but then did not support. The Chamber, echoed by prominent CEOs and the Republican leadership, argued that the debt ceiling needed to be raised; the freshman members firmly resisted. Ultimately, legislators reluctantly agreed to raise the ceiling, but the crisis led to Standard & Poor's downgrading its U.S. debt rating and created a period of serious economic uncertainty.

Another twist has occurred over the "fiscal cliff," the spending cuts and tax hikes Congress mandated to address the deficit. In this case, it highlights the dilemmas facing companies when there's a conflict between the position of the company and its association. In this instance, leading trade associations, including the National Association of Manufacturers and the Chamber, formed the Tax Relief Coalition, which opposes raising new tax revenue to deal with the deficit problem. However, major companies that are members of the associations—and underwrite the associations' activities—such as JP Morgan Chase, Dow Chemical, AT&T, UPS, Caterpillar, Microsoft, and Deere have publicly supported a mix of increased taxes and spending cuts. This raises a serious question: who sets an association's position and what a company should do when the association takes a position opposing what the company considers to be in its interest.

CHANGES ON THE HORIZON

Of course, companies are far from helpless, and in the face of increased scrutiny and discussion, boards and management teams are beginning to assert themselves and take a broader view of their interests. PepsiCo representatives on the boards and committees of trade associations say they make clear what the company's positions are about policies or related activities; they state that there may be times when they will not fund certain initiatives sponsored by such organizations when there are differences.

Target Corp. remains understandably gun-shy after a 2010 dispute in which a company-funded political group ran ads supporting an anti-gay-rights candidate—very much contrary to Target's stated policies. The company responded to the ensuing customer and shareholder backlash by issuing a new policy to tighten oversight of company funds used for political purposes. Target still does not disclose its payments to trade associations, but it has created a committee to oversee corporate political giving.

These controversies and difficult issues could have been avoided by corporate leadership striving to think more long-term, incorporate company values into political spending decisions, and move beyond traditional business-government antagonism. Companies must begin to look beyond the immediate and give serious consideration to what policies they should support for the good of their business and the society in which they operate.

Supporting candidates who profess to be pro-business but consistently vote to dramatically reduce educational and research funding may not be in the interest of a company dependent on the United States maintaining its lead in cutting-edge industries. As Texas Instruments CEO Richard Templeton said in 2009, "Research conducted at universities and national labs underpins the new innovations that drive economic growth." And as economist Joseph Stiglitz recently noted, "Many, if not most, of the crucial innovations in recent decades, from medicine to the Internet, have been based in large measure on government-financed research and development."

It may seem like a no-brainer to support candidates who proclaim a commitment to free enterprise and deregulation, but the ramifications run deep. Even though companies' HR policies increasingly promote ethnic

THE REAL COST OF A TAX BREAK

Maybe this used to be the case: Pro-business candidates, be they Republican or Democrat, ask a company for help; the company writes a check and hopes for a corporate tax break or help on an issue. End of story. Simple but flawed, and those days are gone now. Companies have many questions to ask before even considering putting their money into the political pot:

- What are the short-term and long-term gains for my company?
- Exactly *how* is this candidate "pro-business"?
- Does "pro-business" encompass my company's long-term interests and values?
- Does all—or even much—of this candidate's agenda align with my company's interests and values?
- If I get a short-term gain, am I giving up a long-term goal or undermining the company's values?
- What are the risks involved in contributing to or helping this candidate directly or through a trade association, Super PAC or 501(c)(4) group?

—B.F.F. and K.J.S.

diversity and gender equality, with attention paid to details such as contraceptive coverage in health-insurance plans, political engagement often aims to push policies in the opposite direction. Former cable-industry CEO Leo Hindery Jr. recently noted that "it is indisputable that big business contributions to federal candidates are *directly* enabling insensitive immigration policies, regressive tax policies, continuing attacks on reproductive rights for women and equal rights for gays and lesbians."

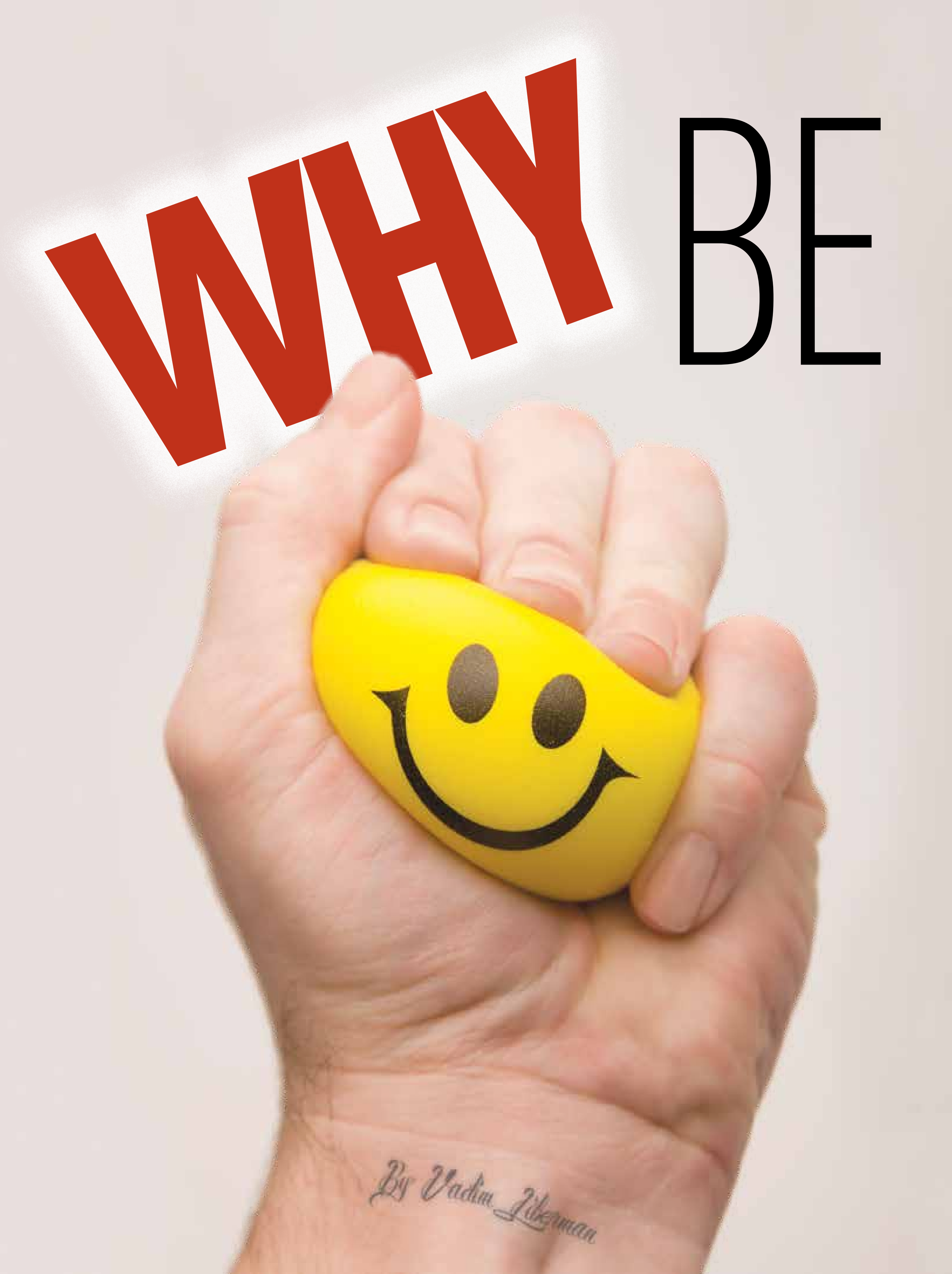
If a company can get beyond the slogans and the pressure to give—more super PACs and nonprofits mean more pleading phone calls and visits—it can ensure that its spending advances its long-term interests and takes into account the broader consequences of its political giving. If a company is in the food industry, then one might reasonably expect it to take a deeper interest in a candidate's position on poverty, as that influences food-stamp policy and bolsters the market for its products. However, political spending by associations of which leading food companies such as Cargill, Con Agra, and Smithfield Foods are members—including the National Association of Manufacturers and the U.S. Chamber—has helped elect members of Congress who voted for a budget slashing the food-stamps program by billions over the next decade.

If proper job training is intrinsically important to a successful workforce and ultimately to a company's bottom line, then attention should be paid to a candidate's position on Pell Grants and funding for community colleges. A company might not be able to engage in civic protest if things don't go its way, like hundreds of Ohio State University students did in 2011 to voice their displeasure with commencement speaker Rep. John Boehner, due to his support for a budget plan that contained cuts to the Pell program. But you may consider your decision to support an organization that backs candidates or elected officials taking this position in a different light. If a company can make a direct link for itself, and establish that its support of a candidate would be detrimental because of that person's views and policies, then that ought to be a significant factor in its decision whether or not to support a candidate, directly or through third-party groups.

One of PepsiCo's guiding principles is, "Balance short term and long term." The company states that in every decision it weighs both short-term and long-term risks and benefits and that "maintaining this balance helps sustain our growth and ensures our ideas and solutions are relevant both now and in the future." This is the approach to take with political spending: Evaluate whether spending is truly in your interest, long-term as well as short-term, narrowly and broadly, and then spend mindfully. This should apply to spending your company engages in directly or through trade associations and other third-party groups.

The new political-spending vision is one that will change corporate political involvement from short-term obligations to long-term investments and goals that create the type of economy and society in which the company can thrive. In the end, companies, the political process, and the broader society will be the better. ■

WHY BE



By Vadim Liberman

VADIM LIBERMAN is the pessimistic senior editor of *TCB Review*.

HAPPY?

INSTEAD OF ATTACHING SMILEY EMOTICONS TO EVERY MOMENT OF OUR LIVES, OLIVER BURKEMAN SUGGESTS, WE SHOULD WELCOME MORE NEGATIVITY.

SOMETIMES, THE GLASS IS MOSTLY EMPTY, SO STOP PRETENDING OTHERWISE. STOP ATTEMPTING TO MAINTAIN A SUNNY OUTLOOK ON THINGS. IN OTHER WORDS, QUIT TRYING TO BE SO OPTIMISTIC.

Those are recommendations you'll rarely hear from self-help gurus, but then, Oliver Burkeman, 37, is no Tony Robbins. In *The Antidote: Happiness for People Who Can't Stand Positive Thinking* (Faber & Faber), Burkeman rails against the persistent belief that we should purge negative thoughts from our minds. Instead, he recommends accepting life's uncertainties, "the kinds of situations and emotions that we spend all our lives running away from." More broadly, Burkeman argues that we ought to drop the idea that relentless optimism and positivity is the exclusive path to happiness and success. He also points out that *The Antidote* isn't just a guide for people who can't stand positive thinking—it's also for people who love positive thinking but shouldn't.

Burkeman, who writes regularly for *The Guardian*, does not shy away from offering contrarian opinions and advice. He spoke by phone from his Brooklyn home about the problems with setting goals, failure, and, of course happiness—all of which just might bring a smile to your face.

LET ME START WITH AN OBVIOUS QUESTION: SHOULD COMPANIES WANT HAPPY EMPLOYEES?

Companies should be concerned about happiness, but they should understand that it's something that emerges from the right kind of environment. A crucial part of it comes from employees having a certain degree of autonomy and ability to pursue projects in the way they want to. It's about creating a climate in which people have meaning in their work rather than one in which they are relentlessly assaulted with targets to meet and all sorts of oppressive things—but once every month we're going to have a fun prize and everyone will get pizza. When companies relentlessly try to make things fun in the workplace and compel employees to really enjoy themselves, their attempts to impose an emotional state so directly are doomed to fail.

I ASK ABOUT HAPPINESS BECAUSE YOU CITE RESEARCH THAT SHOWS THAT HEALTHY AND HAPPY PEOPLE HAVE A LESS ACCURATE AND LESS OPTIMISTIC GRASP OF THEIR TRUE ABILITY TO INFLUENCE EVENTS.

The most immediate conclusion to draw from this research is that it's good to be deluded because if you're not deluded, you're depressed, but I think there's maybe a third option: finding a way of really understanding reality in a way that transcends those two oppositions to something where people are happy and see things accurately.

WHY, AS YOU ARGUE, DO PEOPLE TEND TO OVERVALUE THE WILLINGNESS TO FAIL?

We have a very warped sense of business success because of survivor bias. We only ever hear from the people who ended up successful, so the fact that they have a specific personality trait—a willingness to fail—does not tell you very much, because there might be thousands of people with that personality type who have failed. The willingness to take risks is something that any celebrity businessperson writing a biography boasts about—but most people fail, and they don't become celebrity businesspeople, so you never hear from them. This means you can't take the lessons of a Jack Welch. Successful executives don't know necessarily why they succeeded because they don't know all the other people who did the same things and failed. Any particular trait that you look for in someone you admire and want to emulate is vulnerable to the survivor bias, so it may not always be right to emulate others.

CAN YOU EVER LOOK TO EXAMPLES TO HELP YOU SUCCEED?

I don't think that by getting to know people who have succeeded or failed, you can learn general causal things, but you might be able to isolate specific things that had specific effects in specific contexts.

The survivor bias doesn't mean all knowledge is impossible, but it's a really strong reason to disregard on a general level lessons that get learned in a corporate culture and books that are based on interviewing a hundred millionaires to find out what it takes to become a millionaire. It's also a really good argument for a certain kind of humility among people who are successful. Are they sure that they can explain why they are successful and that luck didn't play a really big part in their success? It's about understanding the conditions of success and not having massively deluded beliefs about your talents.

THE IDEA OF POSITIVE THINKING, OF ALWAYS BEING OPTIMISTIC, IS NOT THE LIBERATION IT MASQUERADES AS.

THIS PLAYS INTO WHAT YOU CALL THE "CULT OF OPTIMISM."

Yes, I wrote this book as a skeptical—but hopefully not cynical—take on the self-help industry, which has a tendency to focus on clichéd positive thinking only. If the promises made by all the books and people encouraging positivity could be lived up to, I'd really like some of the stuff, but the idea of positive thinking, of always being optimistic, is not the liberation it masquerades as. I have a problem with an unfalsifiable ideology of positivity at all costs, this focus on positivity regardless of the results—that is, the belief that if all goes well on some given project, that proves that you were right to be optimistic, and if everything goes badly, that just means you need more optimism. For someone with that belief, there's no situation that can ever disprove that philosophy. Barbara Ehrenreich has argued pretty persuasively that that may have contributed to the present financial crisis—bankers and homebuyers and politicians all thinking that if they really, really wanted things to work out, then they just would.

SO MUCH FOR THE SECRET!

Blind faith in this kind of idea is completely misplaced and not backed up by evidence. In fact, when experimental subjects are told of an unhappy event but then instructed to try not to feel sad about it, they end up feeling worse than people who are informed of the event but given no instructions about how to feel.

YOU'RE NOT CRAZY ABOUT SETTING GOALS. WHY?

There's quite a lot of evidence that the over-pursuit of goals, clinging too hard to them or setting them too rigidly, is detrimental. Being too focused on accomplishing goals can be really dangerous in lots of ways, not just those that involve cheating and fraud, but in just not getting things done. It's a question of being careful and not assuming that the more ambitious the goal and the bigger and more resources you focus on it, the better.

I use the extreme example of General Motors in my book. Years ago, the company set out to get 29 percent of the American car market. They printed little pins that said "29." Everything was focused on meeting this figure, regardless of what that entailed, so instead of developing new cars and a sustainable business model, they discounted and did whatever advertising they could, regardless of what that did to the brand, just to get to that figure. In the end, it didn't work.

THERE'S QUITE A BIT OF EVIDENCE SHOWING THAT PEOPLE DO BETTER WHEN TOLD TO DO THEIR BEST IN CERTAIN CONTEXTS THAN WHEN TOLD TO MEET TARGET X.

MIGHT THIS INDICATE THAT THE DIFFICULTY LIES IN TYPES OF GOALS RATHER THAN GOAL-SETTING IN GENERAL?

It's not that I think you should *never* have any goals—my problem is with this idea that goals are everything and it's *always* right to have them.

The most obvious conclusion from the GM example is not to set one really narrow, rigid target and then obsessively pursue it at the expense of everything else. But the more exciting idea is that setting *any* goal with a target is the problem; there might be context and circumstances in which not really having any clear idea at all of the way forward might be a better recipe of success. There's quite a bit of evidence showing that people do better when told to do their best in certain contexts than when told to meet Target X.

I WAS FASCINATED BY A STUDY THAT YOU CITE IN WHICH EMPLOYEES WERE ENCOURAGED TO THINK ABOUT HOW THEY WERE GOING TO HAVE A HIGH-ACHIEVING WORK-WEEK AHEAD ENDED UP ACHIEVING LESS THAN OTHERS WHO WERE ASKED TO SIMPLY REFLECT ON THE COMING WEEK, WITHOUT ANY GUIDELINES.

It's this idea that rehearsing something with a specific outcome in your mind is the way to bring it about. What you find in studies and real-life business settings is that sometimes having no such target is more effective, or that setting "process goals" is better. That is, it's not that I'm going to have a really high-achieving week but that I'm going to spend the first hour of every day working on the toughest project. It's about the process. The parallel that you find in sports is that it's a popular myth that runners are told to imagine bursting through the finish line and everyone cheering. No, they are taught to try to achieve perfection in the *process*, one step at a time.

Research also shows that some entrepreneurs don't set detailed business plans—they change the way they are headed every week, every day. They're not put off by the fact that they don't exactly know where they're going. Likewise, we're better off spending less time on goal-setting and just getting on with the work. For instance, many companies will try to think of the ultimate idea and then go out and find all the people and processes and materials to bring it to fruition. Instead, companies should look at what's at their disposal—the equipment, people, the material—and then ask, "What can we make by combining these things?" You should not be like a gourmet chef saying you're going to make a gourmet dish and then traveling the world to find the ingredients. It's more about getting home at the end of the day, opening a cupboard and fridge, seeing what you've got, and going from there.

GETTING THINGS DONE, YOU ADD, NEED NOT REQUIRE MOTIVATION.

The problem is that *feeling* like doing something and *doing* it are two different things. Getting pumped up and psyched to do things is a very short-term thing. That's how people who run motivational seminars stay in business—you go and you leave feeling awesome. Then the feeling fades, and next time the seminar is in town, you go again. The whole notion of motivation in our culture reinforces this idea that you have to feel a certain way before you can do it. Motivation isn't actually an aid to getting things done. It's an extra barrier, an extra step. I managed to write this book by realizing that, as a master procrastinator, I didn't have to get up every morning thinking, "I want to do nothing more than write one thousand words today." I just did it.

LET ME END BY ASKING AN OBVIOUS QUESTION: HAS WORKING ON THIS BOOK MADE YOU HAPPIER?

I think I'm a bit happier. I've developed a resilience. I just want to get to the end of my life and feel like I fully experienced the highs and the lows instead of just managed to stick my fingers in my ears during all the lows. Whether that's happiness, I don't know. ■

Illustrations by Michael Morgenstern

■ DON DELVES is founder and president of The Delves Group, a Chicago-based compensation and governance consultancy, and author of *Stock Options and the New Rules of Corporate Accountability: Measuring, Managing, and Rewarding Performance.*

IT'S NOT THAT WE PAY CEOs TOO MUCH. IT'S THAT WE PAY EVERYONE ELSE TOO LITTLE.

the pay PROBLEM

By Don Delves

THE OPENING SENTENCE OF MY FIRST BOOK, PUBLISHED IN 2003, WAS, "EXECUTIVE COMPENSATION IS OUT OF CONTROL." PLENTY OF CORPORATE CRITICS AGREED, BUT I KNOW FOR A FACT THAT I WAS THE ONLY EXECUTIVE-COMPENSATION CONSULTANT TO SAY IT IN PRINT. THE BOOK WENT ON TO ARGUE IN FAVOR OF AN EXPENSE FOR STOCK OPTIONS, WHICH AT THE TIME WERE BASICALLY VIEWED AS HAVING NO COST AND WERE BEING HANDED OUT TO EXECUTIVES AND OTHER EMPLOYEES AS IF THEY WERE FREE.

I risked my career and livelihood to say those things because I thought they needed to be said and hoped they would lead to better governance of executive pay. My hopes have at least partially come true, albeit with some unintended consequences. Executive compensation *was* out of control, but contrary to popular belief, it is no longer so. It is just high—and there is a difference.

CEO pay rose dramatically in the mid-to-late 1980s, shocking the public with "mega-grants" of stock and options, along with the introduction of golden parachutes and tax gross-ups. Then, in the '90s, CEO pay exploded, increasing by an astounding 400 to 600 percent in just a few years. Most of that explosion in pay was in the form of stock options. At the beginning of the decade, we were shocked when an

THE BOTTOM 80 PERCENT OF THE U.S. POPULATION HAS BASICALLY NOT PARTICIPATED IN THE GROWTH OF THE ECONOMY FOR A VERY LONG TIME. THEIR STANDARD OF LIVING MAY HAVE INCREASED DUE TO TECHNOLOGY AND DUAL-INCOME HOUSEHOLDS, BUT THEIR WAGES HAVE NOT.

occasional CEO received a one-time mega-grant of options valued at three times his salary; by the end of the '90s, that was the size of the typical median *annual* option grant to a CEO. At the beginning of the '90s, the total cumulative number of stock options granted to employees at most companies were about 5 percent of outstanding stock; ten years later, that number had increased to 15 percent—and was much higher at technology companies.

This means that the boards of directors of almost all publicly traded corporations gave away to employees—mostly executives—about 10 percent of the future growth in their company's value. (Since an option is the right to buy a share of stock at today's price anytime over the next ten years, it is the right to a share in the growth in the value of the company. Any growth in value given to employees is unavailable to other shareholders.)

Fortunately, the explosion abruptly fizzled in 2001 with the bursting of the dotcom bubble. CEO and executive compensation generally peaked that year, came down a bit, and settled in a range that has been fairly steady (adjusted for inflation) ever since. There was no undoing of the explosion of the '90s, but pay has generally leveled off.

So how high is it? Annual pay for a Fortune 500 CEO runs between $9 million and $12 million. (Heads of smaller companies are paid much less.) It moves up and down with company performance much more than it used to. It is composed of a salary of around $1 million to $1.5 million, an annual incentive of $1 million to $4 million, and the rest in various forms of stock compensation, including stock options. The annual incentive and some of the stock compensation rises and falls with company financial performance. The value of the stock compensation rises and falls, sometimes dramatically, with the company's stock performance. So most of the pay package is tied to company performance one way or another. None of these CEOs risks destitution for poor performance, but substantial swings in take-home pay are both possible and common.

This does not mean that there are not egregious exceptions where CEOs and other executives are paid handsomely for failure. And many of the big financial firms engaged in highly questionable pay and incentive practices that fueled the financial crisis and recession. But CEO and executive pay in general does track company performance reasonably well, and to a much greater extent than it did ten or twenty years ago.

Beyond this, corporate governance has also improved dramatically in the last decade, largely due to the Sarbanes-Oxley Act, passed in 2002, in the wake of the Enron and WorldCom disasters. After a decade of largely independent recruiting decisions, boards are far more independent and are no longer handpicked by the CEO. Under increased shareholder scrutiny and SarbOx rules, key committees are now composed entirely of outside, independent, non-executive directors. The image of a corporate board as a group of the CEO's cronies who just want to make him happy and do his bidding is an anachronism.

HOW MUCH INEQUALITY IS TOO MUCH?

This is an enormous amount of very positive change in just ten years, which leads to a key question: *If CEO pay is actually tied to performance, and corporate governance has improved so much, why are people still so angry?*

This question came to a head for me in an interview with a smart journalist in the summer of 2011. I was explaining how executive pay had fallen significantly during the recession and then rebounded—in a very appropriate way—as corporate profits improved. She paused and asked, "Well, Don, that is great, but what do you say to the typical factory worker in Peoria, Illinois, whose pay has not increased meaningfully in the last ten years?" I had no answer. The disparity bothered me then, and it still bothers me today. It is the crux of a significant societal problem, and may be at the core of what ails our economy.

The problem, as I see it, is not just that CEOs are paid so much. It is that most people are paid so little. In real terms, the typical American worker's pay has increased either very little or not at all over the past thirty to forty years, depending on which study you read. The bottom 80 percent of the U.S. population has basically not participated in the growth of the economy for a very long time. Their standard of living may have increased due to technology and dual-income households, but their wages have not.

Economists and pundits have written a great deal about growing inequality in America—how the top 0.1 percent or 1 percent or 10 percent has reaped an increasingly and startlingly large share of the increase in income and wealth over the last few decades. The data is incontrovertible. The question is not whether this has happened but, rather, what are the consequences?

Granted, I have never been particularly swayed by concerns

“If CEO pay is actually tied to performance, and corporate governance has improved so much, why are people still so angry?

over inequality, since capitalism requires a certain amount to function. However, too much inequality poses a real problem for a capitalist economy: If the majority of workers cannot expect to make any more money, to contribute meaningfully to the performance of their company and share in the rewards, then why would they strive to work harder, smarter, or more productively?

My fear is that we have lost the hearts and minds of much of America's workforce. The core engine of our economy is unengaged or, at least, underengaged. The workforce that was once the world's best is no longer. If this is true, it explains at least part of our persistent economic challenges. It also raises serious questions about most people's ability to save, to invest, and to retire—but those are topics for another article.

GAINS NO LONGER SHARED

I have been a compensation consultant since the mid-1980s. Back then, and in the early '90s, we spent a substantial amount of time working with clients on various types of gainsharing plans. They had many names, but all had the same objective: to give employees greater influence over business results and share part of the financial rewards with them. This was usually done in factory and manufacturing settings. Employees were organized in such a way that they could make improvements, adapt to changing conditions, and work smarter to increase the productivity of their plant or assembly line. They were educated in how the plant operated and made money, they were given access to information on the plant's performance, and they were given a share in the resulting performance improvements—usually in the form of a monthly or quarterly addition to their paycheck. The share was typically permanent, as long as the gain in productivity lasted. Employees could build their pay as they improved performance. It was a win-win for the company and the employee.

Twenty or twenty-five years later, the idea sounds a little utopian. But it really happened, and it really worked. No doubt many plants and other operations still use these plans, but they have become relics of a bygone era. That is really too bad.

What happened to gainsharing plans and the whole movement to empower workers, get the best from them, and share the rewards? Four reasons:

The rise of China, India, Mexico, and other countries as less expensive places to manufacture. The impetus behind gainsharing was increased productivity, but it required a lot of effort to make it work. In many ways, it was easier to move manufacturing to lower-cost environments than it was to get more production from existing American workers.

The dramatic increase in factory automation. Robots and such were uncommon in the late 1980s but are everywhere today.

Stock options. The 1990s saw an explosion in the use of stock options; many, many companies granted them to all employees. They were seen as a win-win benefit that would make all workers think and act like owners, and the strategy worked to some degree as long as the stock market was booming. It does not work so well in a flat market, since, obviously, options have no value to workers unless the stock price rises. (Some technology companies—most prominently, Microsoft—moved away from stock options and now grant whole shares of stock to most employees, but this has been done only by firms with a high percentage of high-tech knowledge workers.) It is also now prohibitively expensive to grant options or stock to all employees—the unintended and disheartening consequence of the expense for stock options. What once was free now carries a significant accounting cost. Almost all companies that once granted options (or stock) to all employees now grant them only to middle management and above.

The growth of the service economy. As the manufacturing economy has shrunk, employment in the service economy has grown: A significant proportion of American workers are now employed in industries such as hotels, retail stores and distribution centers (e.g., Amazon and other online retailers), and restaurants. These now comprise many or even most of the economy's lowest-paid workers. And their employers have barely begun to tap their collective knowledge, creativity, and ingenuity—nor share profits with them in meaningful ways.

Another factor that may be playing a role in the stagnation of worker compensation is education. The United States has strongly emphasized the importance of a college degree and worked to provide access to anyone seeking one. This goal is admirable and ambitious, but how many more C+ liberal-arts grads from third- or fourth-tier schools can the economy accommodate? The answer is probably zero.

What we do need, desperately, are people with solid technology educations who can fix our endless supply of broken gadgets, update the robots in our factories, and repair our crumbling infrastructure. Other developed countries—Germany in particular—have world-class technology tracks for students who choose not to follow the baccalaureate track, and they can make a very good living in high-value-added manufacturing jobs.

ALIGNMENT AND ENGAGEMENT

What can we do about this critical societal and economic problem? Others have advocated various tax and government policy remedies. But this is first and foremost a business problem; it is and has always been the role of businesses to provide opportunities for employees to make a valuable contribution, and to reward them for that contribution. It is increasingly the job of businesses to provide *meaningful* work and the opportunity to learn, grow, develop, and positively influence the business.

Current research in the field of self-determination theory suggests that people need three things to thrive in a work environment: *competence*—a sense of mastery, of being good at something, of being able to make a valuable contribution; *autonomy*—a sense of control or influence over one's environment and one's future; and *relatedness*—an ability to relate to and work with others in a meaningful and satisfying way.

There is also a body of research that shows that monetary incentives can have perverse consequences, especially when the task requires creativity or innovation. So this is clearly not just a matter of pay. Nor was that the case with the gainsharing programs of twenty years ago. Then as now, several things are required to effectively and productively engage employees:

* A work structure that allows or promotes employee contributions, ideas, innovations, and improvements;
* Education on how the business works, how it makes money, and how employees can contribute;
* Measurement of performance and productivity in real time, or as close as possible to real time; and
* A compensation model that shares performance improvements with employees and is transparent and fair to employee and employer.

Most research shows that it also helps if the employee feels that the mission and values of the company are something he or she can align with and support. If people go to work

IT WAS EASIER TO MOVE MANUFACTURING TO LOWER-COST ENVIRONMENTS THAN IT WAS TO GET MORE PRODUCTION FROM EXISTING AMERICAN WORKERS.

every day feeling that their values are at odds with those of their employer, or do not believe in the company's mission, then they may do the job, but their heart will not be in it, and they will view their pay as "compensating" them for doing something they really don't believe in. Conversely, if employees feel that their values are aligned with those of the company—or they can choose to align with the values of the company—they are much more motivated and engaged in their work. Think of companies such as Southwest Airlines, whose employees go to work every day knowing that their mission is to make it cheap, easy, safe, and reliable for grandmothers to visit their grandchildren, for parents to see their kids' graduations, etc. Or Whole Foods Market, which has a purpose, mission, and ethic that are compelling, real, and operationalized. (Store employees have autonomy in selecting new employees, selecting and buying products, and relating to customers; performance is measured not just at the store level but at the department-within-store level, and employees participate in the profitability of their department and of the store.) Or the yoga-clothing chain Lululemon, which has a mission-oriented business model and expects its employees to have detailed personal and professional growth plans that are shared with other employees.

One restaurant chain—I can't name it here—is developing a program to educate its servers, cooks, bartenders, and managers on how the business operates and makes money, and empowering them to do a variety of things that increase the profitability of the restaurant. A single restaurant is a definable business unit that can be run in a more entrepreneurial way, such that all or most employees can be involved in things such as bringing in more customers, improving customer loyalty and return visits, improving food quality and accuracy of orders, enhancing the guest experience, increasing the average tab, and increasing tips. The resulting difference in store performance is more than enough to share meaningfully with employees and still benefit the company and shareholders. It will also allow some employees to earn benefits and make enough to support a family instead of just providing supplemental income. Employee turnover is much lower than the industry average, and longer-term employees make more money for the restaurant. It is a truly virtuous cycle.

Programs such as these are difficult to implement and maintain. Best Buy offers a cautionary tale. A few years ago, Best Buy experimented with a brilliant and exciting approach to empowering and engaging employees in a selected group of "lab stores." All employees in a given store were taught how to form and test a hypothesis about how to improve store performance. They had to survey at least five hundred customers to prove their idea had merit. Then, if their idea was approved, they got to try it out and test it to see if it generated a positive return on investment. Most ideas were not radical—they often involved a different type of product display, moving certain products to the front of the store, adapting the product mix to the local market, pricing products differently, or combining products in a certain way. One employee, realizing that his store was in a Vietnamese community, advertised in the local Vietnamese paper, put signs in Vietnamese in the store, and dramatically improved store performance.

If the experiment worked and generated a positive ROI, it became permanent, more or less. Employees publicized their ideas on an internal intranet and presented them to other employees at innovation fairs. The results were dramatic: Lab-store performance was generally much higher than at other stores.

Unfortunately, the concept was controversial within the company. The senior executives in charge of merchandising and operations were threatened, perhaps understandably, by the idea of empowering employees to make decisions about product selection and store layout. A significant internal battle killed the lab stores, along with other innovations. A year or two later, the company found itself under attack from large online retailers and other big-box discounters; it was not agile enough to respond quickly and has struggled to regain its footing. One can only wonder how quickly the company could have adapted if tens of thousands of store-level employees had been empowered to read the situation "on the ground" and make changes quickly based on changing customer preferences and buying patterns.

These are examples of how companies can start unlocking the potential of their people, making more money for shareholders, and providing a better work environment and more pay for their employees.

Again, pay is hardly the only motivating factor when it comes to employee engagement. But any corporate initiative that aims to take the workforce to another level needs to make compensation a key element.

I advise boards of directors and their compensation committees on executive compensation, and the boards with which we work spend an enormous amount of time, money, and collective talent deciding how and how much to pay the top five to fifteen people in a company—and no time at all on how and how much to pay the other hundreds or thousands of employees on the payroll.

As noted earlier, the incentive programs developed for executives are carefully fashioned and generally work well—as they should, considering the scrutiny they get. Given the immense importance of the future productivity and pay of the American worker, perhaps boards could lend management some time and wisdom to craft plans to compensate the 99 percent. ■

WILL YOUR PEOPLE BE READY?

TOP EXECUTIVES REVEAL HOW THEY ARE ADDRESSING TODAY'S METEORIC PACE OF CHANGE.

BY VADIM LIBERMAN

VADIM LIBERMAN is senior editor of *TCB Review*.

BY THE TIME YOU REACH THE END OF THIS ARTICLE, APPLE WILL HAVE RELEASED A NEW iGADGET, FACEBOOK'S SHARES WILL HAVE BOUNCED UP AND DOWN, BRAZIL WILL BE THE NEW CHINA, THE UNITED STATES WILL BE THE OLD CHINA, AND WHATEVER PAPER OR SCREEN ON WHICH YOU'RE READING THIS WILL SEEM LIKE AN ANCIENT RELIC FROM FIVE MINUTES AGO. THEN THERE'S YOUR TO-DO LIST, MORE LIKE A TO-DO BOOK—NO MATTER HOW MANY PAGES YOU SPEED THROUGH EACH DAY, YOU'LL NEVER FINISH IT.

Doing business today, as it was yesterday, is about managing change. And there's ever more change to manage. How do you develop a five-year plan when the next five *days* seem hazy? The velocity at which marketplace evolutions and revolutions churn nowadays is frustrating at best, damaging to your company at worst. There are more decisions to make and less room for error, more complex information and less time to process it, greater competition and consumer demands and fewer minutes to respond to them . . . and yet you hardly have the luxury of using any of this as an excuse for failure. You have to be prepared not for tomorrow but for right now.

So we wondered: Given the current faster pace of change, will your people be ready when—not if—your organization shifts direction? How easily will they be able to shift from one workplace layout to another, from one business function to another, from one global region to another?

To find out, we asked two dozen top corporate leaders working in the trenches of change management, talent development, learning, workforce planning, and organizational development at companies such as Wal-Mart, Verizon, Shell, General Mills, Pfizer, Caterpillar, and other big businesses how they are addressing today's dizzying rate of change. Below, you'll discover plenty with which to commiserate, but take a deep breath, because you will also find various perspectives and advice that you may infuse into your own company. Their replies span the gamut of change management.

Ultimately, the future will always be uncertain. Here's how to make it a little less so. Maybe.

"NOT IN KANSAS ANYMORE"

Diane Holman, Chief Talent Development Officer, Wolters Kluwer

Companies today cannot wait for external changes to happen to them before doing something. By only reacting to what customers want, you'll always be behind your competition. To be an industry leader, you have to anticipate the next thing.

We are in an industry that has gone from print publishing to online software and services to now data analytics, and we're in the process of addressing this. In the old world, we knew who our competition was—print publishers like McGraw-Hill, Reed Elsevier, and Thomson Reuters. They are still our competition, but now there are other game-changers, like Google. Why, as a customer, do I need to pay for certain information—regardless of print or online subscriptions—when I can get much of it for free by Googling it? We can no longer make decisions that are tied to the legacy of print publishing. It's important to acknowledge there are many digital companies as our competitors. If you always associate yourself with a competitor that's a print publishing house, then you tend to keep operating like one. The world has changed, and we need to get out ahead of it.

It can be challenging to respond to such rapid changes because people by nature tend to get comfortable with the status quo and resist change. Meanwhile, we also need to rethink what our talent needs to be successful in a rapidly changing environment. While they may have the technical skills and capabilities we need to get the job done, we need to also ensure they have the abilities like agility, resiliency, and adaptability.

To ready ourselves better for change, we're spending time with our customers. Like every organization, we try to believe that we're always doing that, but we've increased efforts to have more one-on-one conversations with them to better understand their requirements and how their own worlds are changing. We're also focusing on external trends and data more. Again, it sounds so simple. Everybody says they're doing this too, but sometimes you get insular in your thinking and you focus more "inside out vs. outside in." Finally, we're seeking out more people with business intelligence to really drive decision-making using good data. Again, one might say, "Well, doesn't everyone make decisions this way?" Well, no, they don't.

SHIFTING MINDSETS

Kirsten Marriner, Senior VP, Director of Talent Management and Development, Fifth Third Bank

When addressing change, you've got to be clear about what you want people to do and expect that some will struggle. Twenty years ago, I worked for a small bank that was moving from tellers who just processed transactions to a sales culture. The bank wanted tellers to initiate conversations to sell products and services. Some people didn't want to do that; they picked a bank-teller job because they liked providing service, period. So some self-selected out because they realized the job was no longer for them. That's OK. By being clear on expectations, the bank was able to retain the right workers.

Similarly, at Fifth Third Bank, we're three years into a shift in how we deal with clients, to a more holistic-based approach geared to meet a broad set of their needs. Historically, our approach has been sell, sell, sell—very product-based. "What have you sold today?" literally was the screensaver when I got here eight years ago. Now, we're focused on having employees collaborate proactively to put together comprehensive financial solutions. This involves a major mind-shift, and it's taking some folks longer than others to adjust, but by training people on diagnosing customer needs and approaching clients using various role-playing and coaching techniques, highlighting success stories, and rethinking how we write and measure performance goals, we're getting there.

LET'S GET SOMETHING CLEAR

Mary Slaughter, Senior VP of Talent Management and Development, SunTrust Bank

More than ever, we're being very deliberate about moving talent. SunTrust moves talent for three reasons: to develop individuals as leaders, to enhance operational performance, and to accelerate organizational change. Sometimes it requires major shifts of business leaders across organizational boundaries: The company has moved talent from corporate functions into revenue-generating positions and vice versa, like moving people from investment banking into HR or from risk management into field roles. This helps with the longer-term goal of building a leadership pipeline as well as the near-term goal of fostering new conversations and different perspectives to happen within departments.

We've also gotten more specific about defining jobs, because in an industry immersed in so much change and ambiguity, an organization should strive to not introduce even more uncertainty due to unclear decision-making processes. With ongoing changes such as increasing regulation, changing client needs, and other global market forces, it is important to be really clear about decision-making processes. We've had to get more specific about role clarity, defining not just what the company needs our teammates to do but what it does *not* need them to. It promotes both efficiency as well as effectiveness.

"WHAT DO YOU MEAN I'M NOT A—!"

Lauren Chesley, Director of Change Execution, Verizon

There's a misconception that what makes change difficult is the physical movement of workers. Actually, it's ensuring that employees make a psychological transition that challenges us most. If all of your life, you worked in one kind of job, it becomes part of your personal identity. Now all of a sudden, you have to do something new, and you think, "Wait, I'm not an engineer. This new job is not who I am; it's not how I ever saw myself." Managing change isn't really about focusing on developing people's technical skills—it's about helping people understand how to adjust their personal identities.

At Verizon, we look for resilient employees who have an aptitude to survive in any situation in our constantly changing industry, but, most importantly, we look for employees who understand that our focus on the customer is our top priority. Customers' needs, wants, and interests change on a dime, and we look for employees who can be just as agile in helping serve our customers and adapting to these changes to make sure they have the best experience possible. Once we find such people, training them in new technical skills becomes a no-brainer; we worry about that once they're on board. I'd rather hire a person with a passion for our mission and culture of putting our customers first than bring in someone who's very technically strong but may not come to the table with the same degree of enthusiasm or commitment.

Nonetheless, we do struggle with timing. We work in a constantly changing, fast-paced industry that requires employees to be agile and able to quickly adapt to everything from new products and services to new competitors in our space. What may be a very sound business strategy in November 2012 may be less sound by November 2014, and because of the ever-changing environment, focusing on finding the "right person" with the personality and passion for the long term versus the right "skills" for the short term can make all the difference in how we capitalize on this time before we have to change again.

AN INSIDE JOB

Daniel Sonsino, VP of Talent Management, Learning, and Development, Polycom

For the first half of our twenty-year history, we were known as the conference-phone company. Our company name had become a noun: "Polycom" was anything that related to audio-conferencing hardware and technologies. As the technology improved and bandwidth increased, our customers began looking to combine their audio investments and add video services. And now, many companies are assessing their capital expenditures and want to ensure they have the best total cost of ownership. As a result, we're making another shift: In addition to room-based systems, Polycom is expanding into the small-to-medium-business space, mobile, services, and cloud-based software. At the same time, everyone is starting to bring their own devices to work, so our products also have to work on whatever platforms people are bringing to the office. It's a major transition for us. We still need hardware specialists, but at the same time, we're developing software skills in workers. In the past, we would have more time to make this sort of change, but now the cycle has compressed. We need to be more productive. Timelines are much more truncated. The old notion of giving workers two weeks of onboarding, putting them though a three-month course, and blah blah blah—that's all gone. This transformation has got to be on-the-job and more targeted and niche.

Some people will make this transition; others will part ways with us. But the real issue is not about the skills themselves—it's about the shift in mindset, from being a hardware to a software company. Getting people to understand this is the hardest part. Once they embrace where we're going, employees and the company will be in a far better place to succeed. That requires very visible leadership that will not under-emphasize the breadth of change, which is something that some leaders at other companies might do to ease a transition. We feel that in order for this transformation to be successful, it needs to be led from the inside, because external consultants don't understand our company or our people; they don't have the credibility. For a change to be successful, you've got to take responsibility and accountability for it from the inside, have visible champions across the organization, paint a picture of the end state for all employees, engage them throughout the process, and demonstrate quick wins. With everyone working toward the same goal, success is inevitable.

THE SWINGING PENDULUM

Bonnie Fetch, Director of People and Organizational Development, Caterpillar Inc.

Caterpillar hasn't had to reinvent itself like many other companies, but we've had to adjust to technology changes and consumer demands to remain relevant. While we're not always perfectly ready when change happens, we're pretty rapid in our response. Partly, that involves rethinking the skills we look for in people.

Once upon a time, we'd have decades to develop a professional throughout the course of his or her career. As the pace of change in the world is coming at us more quickly and as we grow in emerging markets, we've had to figure how to get people up the learning curve quicker. In doing so, as recently as twenty years ago, we focused on deep functional expertise. As we got into the 2001-to-2010 timeframe, we experienced significant growth, and we had a lot more cross-functional movement, in part to develop leaders to take on broader roles and in part because we got enamored with helping people get breadth of experience. But in the last few years, we recognized that we were moving people far too frequently and maybe trying to give people more experiences than were necessarily healthy for the organization or our customers. So now, we want to move people around cross-functionally only when it makes sense for their intentional development. The pendulum has swung back to a notion of deep expertise—which doesn't mean that we expect our leaders to always be experts, but the good ones know how to leverage their networks rather than just try to figure things out on their own.

RECOGNIZING RISK

Ton van Dijk, Senior Advisor of Global Resource Planning, Shell

We have a history of doing scenario planning to explore what the future might look like and the likely changes of living in it, but in the end, like every company, we must make strategic choices and choose specific directions. That means that sometimes we have to pre-invest in developing certain skills in people that may only become relevant at a later stage than originally planned for. There are always going to be such considerations. That's just the nature of business.

Still, some companies make the mistake of prematurely releasing personnel when their skills are no longer needed—e.g., in times of downturn. We don't usually do that because we recognize the long-term nature of building skill-based capacity. We know we will need skilled professionals in the future, and it would take a long time to rebuild capability once gone. Of course, one of our goals is to ensure that we recruit people who have the capability to be very flexible to move from one business unit to another, too.

ONE SIZE DOES NOT FIT ALL

Kevin Wilde, VP of Organizational Effectiveness and Chief Learning Officer, General Mills

A major shift for us has been expanding beyond traditional media into digital media, which we began preparing for years ago by visiting Google and Apple. Also for the past number of years, we've made efforts to build competencies around using new media. In some cases, this required us to bring in expertise from outside.

Still, the tough balance for us remains how to execute today's business plans using today's capabilities and still be ready for the future. I don't have the perfect answer for how to get that balance right, but I do know the problem is not so much *how long* you take to develop someone but *how* you do it. That means constantly adjusting a person's development curriculum to broaden the individual. For example, our leadership institute ensures that anytime anyone makes a transition into a new role, that person gets individualized training. You need to have a feel for context and that person's skills rather than use a one-size-fits-all approach to development.

THE NEW NORMAL

Jan Walstrom, Chief Learning Officer, CH2M Hill

A diminishing pool of graduates in sciences and engineering will be a challenge for us in the coming decades, but more than a skills gap, the larger problem at lower levels is an expectations gap. Today's entry-level workers expect to have to do something only once, check it off, and now they're good at it. That's not how this industry works. You don't get a stripe on your sleeve for doing something once. Granted, these days, people can get a lot more practice at different things a lot faster, but the pace of change also means that they have less time to give and get feedback, and reflect on it.

Additionally, the pace of change creates a lot of discomfort. People want change to be simple and quick: Make the pain go away; let's have it be done fast. Change is really, really hard and takes way longer than you could ever want to imagine. People try to fight change; we try to shove ourselves against this rock as if we're going to stop change from happening, when frankly, feeling uncomfortable is good because we don't challenge ourselves without being stressed. The real way to grow is to get comfortable with being uncomfortable. That's where good leadership comes in. It's up to leaders to get their people to be part of the change. Unfortunately, the most common mistakes managers make is that they're willing to declare victory too soon. You can't over-communicate. We encourage our leaders to say the same message fifty-two different ways, like a broken record, to get it through to people so they embrace and act on change. We struggle with this every day, and though we're not great at this yet, we're working like the dickens to get better at it.

CHANGE WHERE YOU NEED IT

Michael Trusty, Head of Capability Consulting, Rolls-Royce

Many young people entering into apprenticeships today have different experience and a different skill set than people did ten to fifteen years ago. They are very comfortable with the electronic world and with computer models but may have less experience building in physical space what they designed electronically. To address this, Rolls-Royce ensures a balance of hands-on manufacturing and assembly skills along with electronic and computer skills when planning the training of our graduates and apprentices.

More broadly, while I don't like clichés, I don't know any other way to say it: It comes down to learning agility. The people who have a comfort level with ambiguity and can pick up concepts easily are the ones who will thrive. Twenty years ago, you went to school and you carried the knowledge you learned in your head to get your work done, but you can't have everything in your head anymore. The pace at which information now flows means that those who are most ready for change, particular in knowledge-driven organizations, don't just apply what they know but can quickly seek out and assimilate new information. Our strongest senior executives are able to process and assimilate large amounts of information to enable them to rapidly make decisions.

But I want to be clear that not all strong leaders need to be change leaders. For example, factory plant managers often want strong operations leaders, not change leaders. If a certain production process takes twelve minutes and twenty-three seconds, many plant managers will want supervisors who would get excited about doing the work in twelve minutes and twenty-one seconds the next time, then twelve minutes and nineteen seconds the next and so on. They would not want each supervisor independently leading some radical change—it needs to be aligned with the overall objectives of the plant, because it can be just as dangerous to drive change where you don't need it as it can be to respond wrongly to change where you do.

ALL TOGETHER NOW

Scott Cohen, VP of Talent Practices, MassMutual

Collaboration is extremely important to prepare for the future and provide top value to customers and their changing needs. In the past, people here emphasized their own work rather than group goals; we have begun to redesign some work throughout the organization around teamwork and increased cross-training, so whereas before, one person would work on a certain type of claim, now we have inter-functional teams able to assist one another as needed. And because every day can bring new challenges, each day begins with groups engaged in one-hour huddles facilitated by managers. During these meetings, employees put up metrics on white boards to review the previous day's accomplishments and discuss potential new challenges they'll face. These meetings give everyone a chance to be tuned in, in real time, to what everyone's working on and how they can help each other.

This reconfiguration around teamwork has given us a chance to start from a blank slate in identifying leaders who can lead in a new, more collaborative environment.

It's resulted in greater recognition of our front-line people, especially given that they often have special insights into consumer demands. As we've worked to identify leadership skills in individual contributors, we've begun to challenge traditional assumptions about who might make a successful manager. Not all of the selections we've made have been perfect, but we have many success stories.

SIMULATING CHANGE

Craig Gill, Director for the Development Center of Expertise, Deloitte Services LP

To be ready for what comes our way, we've had to build up skills related to industry knowledge, communications, business empathy, and leadership. This sort of soft stuff is actually the hard stuff to teach, and we've come to realize that these skills must be taught very differently than technical skills. It's made us adjust our approach to teaching, where we now teach these competencies more experientially, through role-playing and simulation. We do much of this at the Deloitte University, a $300 million state-of-the-art learning center in Westlake, Texas. For instance, when someone's promoted to manager, rather than put that person on the job immediately, we have a weeklong program that embroils the person in simulated days of a life of a manager so that the individual can receive practical coaching. It sends workers out into the field more productively equipped for their assignments.

REDEFINING GOOD DECISIONS

Kurt Metzger, VP of Talent Management, Prudential

To keep up with change, we're trying to drive skills around intelligent risk-taking—that is, how do you make smart decisions with imperfect information? To do this, we've had to rethink how we recognize people. We think it's more important to reward and compensate people for going through the right decision-making process as opposed to strictly based on outcome—because a good decision doesn't always have a good outcome. To help people make better decisions, we're training them in all sorts of ways, including using simulation-type programs to replicate real-life problems. Will all this ensure that we'll always be in front of every change? Obviously not. There will always be things that will blindside us, but if we position ourselves in the best possible way so that we can manage what is or could be known, we'll have more space to deal with things that will truly surprise us.

THE RIGHT QUESTIONS

Mark Sullivan, VP of Talent Management, Battelle Memorial Institute

Battelle is a government contractor that manages national labs and billion-dollar assets in Big Science, addressing national interests like security, health, and energy. In part, Battelle is paid to manage workforces that ensure critical infrastructure protects or optimizes our country's health and safety; this includes assets like nuclear facilities to disease management/infectious controls. One of our current biggest challenges is that the company's major customer, the U.S. government, is now broke. This has caused Battelle to be more careful in placing strategic bets on what it thinks the government will fund/need and on how to deliver that value in a way that will best serve the national interests of our country in an efficient manner. It's especially risky now because if you spend research dollars developing the wrong projects, you will be out in the cold.

So we do a lot of intelligence gathering (voice-of-the-customer) work with key contacts in DOD and DOE and on Capitol Hill to get a better sense of current and emerging priorities. However, there's usually not enough information or even contradictory information about the nature of our national threats and opportunities. More than ever, sorting through what to pay attention to and how to creatively address complex solutions is something we need to get right every time. Quite simply, this involves innovative thinking mixing the practical with the visionary while listening, testing, and experimenting along the way. This is what we are known for—therefore it requires more reliance on our talent than the technology itself.

The secret sauce for Battelle is having people who know how to ask the right questions, critically think in ways that are not obvious, and sometime listen to the unarticulated but present messages in the mix. Given that we are regularly asked to solve some of the world's toughest problems, the thinking behind the doing becomes the game-changer. The truth is, some can and some can't do that, so Battelle's greatest differentiator is in ensuring it has that capability on every customer-facing team. So for example, what some rogue element might do at 3 a.m. is hopefully being successfully addressed in a productive manner so that our collective future continues in a safe and secure manner.

THE EMPATHETIC LEADER

Debra Clawar, Global Head of Talent Management, Leadership Development, and Staffing, Novartis Pharma AG

A big piece of implementing change effectively has been helping executives understand their role as change leaders rather than simply change managers. Change leaders not only understand the change journey but take an active role in helping others along that process. A leader's ability to be self-aware, to use that awareness consciously to the benefit of others, is a key ability of change leadership. Novartis is focusing more on creating approaches to enhance self-awareness for our leaders, coupled with key skill-building in areas like coaching, influencing, and storytelling.

WHEN NOT TO CHANGE

Craig Williams, VP of Global Organizational Effectiveness, Walmart

The quicker pace of change causes many companies to become victims of indecision. Many keep doing the same thing, thinking a problem will go away or take care of itself. Other companies suffer from the opposite problem: They don't think through how quickly a decision needs to be made or whether change is necessary in the first place. The pace of external change may be quick, but that doesn't necessarily mean organizations have to change quickly internally. Sometimes, you really do have more time than you think to make decisions. The key is to rely on good data. If a major change is necessary, you undertake it based on data, not because you're panicking that a competitor launched a new product.

Too often, organizations make knee-jerk decisions to restructure or significantly shift responsibilities, which rarely address the problems and often make them worse. Moving people around on a chessboard and drawing new lines and boxes is a two-dimensional approach that probably will not address anything you're really trying to solve. Research studies continually show that the reason that 70 percent of change efforts fail is primarily because of mindsets, attitudes, and behaviors—the soft stuff, the people stuff. That's why we train our managers in the psychology of change, to be attuned to their employees' concerns and thoughts.

It's equally important to realize when *not* to stick to a change. A good example is how over the last few years, we worked to change a number of things in our U.S. stores, such as assortment—but we found that our customers did not want some of those changes, so we quickly reverted to what worked before. When we make mistakes, we quickly learn from them and leverage them in our next steps, and we don't pull out our hair and bemoan that something didn't work out.

GOING GLOBAL

Shawn Zimmerman, VP of Global Talent and Organization Capability, The Hershey Co.

Too often, companies get organizational ADD, where they develop a strategy and then something comes along that distracts them—some bright, shiny, new thing that doesn't necessarily fit within the strategic framework. That creates potential distractions and more internal change than is necessary. At Hershey, we're very focused on sticking to our strategy for disciplined growth. Growing globally presents enough challenges; we try to avoid compounding the difficulties by staying the course and not deviating from our strategic plan.

For example, the challenge for us has centered around our global expansion. In a mature market like the United States, where we have significant experience and credible amounts of information, analytics can drive 80 percent of our decisions, and leaders' intuition can drive the other 20 percent. When we go into emerging markets, like Asia, Africa, and the Middle East, where our internal experience is not as strong and data is lacking, it's the reverse: We no longer can rely on the tried-and-true methods we're used to—we need to adapt to the local markets and build up our capabilities.

Once you venture outside your mature markets, where data and internal experience is readily available, you need to find a balance in building local capabilities and buying those capabilities you may not have time to develop. Therefore, we strive to find a balance in who we hire and develop, with an emphasis on global enterprise mindset, delivering results, and novel and adaptive thinking. In order to keep up or stay ahead of the pace of change in a global marketplace, it is critical that you invest in building local capabilities, hiring and developing local talent so you can sustain and enable further growth to meet your strategy.

FORGET THE FIVE-YEAR PLAN

Howard Marcus, VP Management and Organizational Development, McGraw-Hill

We have a senior leader here who says there's no more business as usual, and there never will be—this approach where you set your agenda and budgets at the beginning of the year and at the end of the year, you're assessed on those objectives, and in the meantime, "Leave me alone!" Companies that continue to stick to a strict annual performance cycle with yearly objectives are going to have a problem. The new reality is that we're planning and assessing and revising multiple times during the year because the pace of change has exploded. This means that we've had to re-think our performance-management process so that it allows for ongoing documentation and changing of goals when necessary.

The same is true for the company as a whole. We're continually changing our time horizons. The idea of a five-year plan may have made sense a few years ago, but the planning cycle has greatly shortened. This doesn't necessarily mean we're doing things dramatically differently—just being more flexible, realizing that plans made today will be reassessed in a few months. For instance, we had plans to roll out a new global curriculum for leaders, but we held off until we could re-evaluate its content after recently announcing the sale of one of our lead divisions. Really, the key to doing business in this climate of change is being very clear on strategy and very flexible with goals. As for actually training people to be more flexible and adaptive, we don't really do that here. I'm not even sure what such training would look like. We do, however, build innovative thinking skills, out-of-the-box techniques focused on creating value and driving change.

"MEDICINES ARE NOT IPHONES"

Mark Ferrara, VP of Talent Management, Eli Lilly and Co.

I remember when voice mail emerged to replace those pink slips of paper when somebody called, the vice president I worked for said, "We will *never* get voice mail. I want to talk to a human." Today, I get almost no voice mail; I communicate through text and instant messages and emails. The speed at which we communicate today is faster than what I think wisdom would say is prudent. Just because I get an instant message doesn't mean I have to instantly answer it, but you're sometimes baited into doing so simply because technology makes it possible—even though it would be wiser to think through your answer in greater detail and depth. It's the tyranny of the urgent. Similarly, companies make decisions too quickly just because they feel they have to, but I'm more interested in a company seeing the bigger picture than providing what they think is the right answer *right now*.

That's especially important, if at times hard, for a pharmaceutical business like Lilly because there is constant pressure to help get solutions to patients faster. We have a public that is a lot more demanding these days, with more avenues than ever to express their demands. How do you explain to the public all the complexities involved in introducing a new drug? It's harder to put a new drug on the market than to put a man on the moon these days. Though there's a tendency to want to rush things due to the fast pace of business, to shave off every single minute, we don't because patient safety must come first. Medicines are not iPhones.

AVOIDING BURNOUT

John Zoeckler, Global Change Management CoP Lead, Air Products and Chemicals

Any time you make a decision, it can impact a lot of other departments. That can be tricky, especially when people are spread across geographies. For example, as a result of cost pressures, we use our various engineering offices located in other countries for some of our engineering work. How do you manage a project that comes from corporate headquarters, gets designed in China, and then made in a plant in South Korea? In an increasingly global economy, it's a challenge for us to make that happen. One way is by transferring knowledge through a corporate university, which helps ensure everyone's skills are updated. Also, in many businesses, competency models are quite dated; job descriptions haven't changed for years, even though the jobs and the skills needed have. We're always striving to enhance our competency base.

In addition, an organization can become flexible and accustomed to change so that moving fast becomes part of the culture. The risk, though, is that hasty decision-making can cause poor outcomes, and people start to get tired. There's a fatigue factor. They wish that just for a couple of weeks, things would stop so that they can take a breath and get good at what their most recent role is. That's why we try not to implement changes too quickly, so that people really have a chance to fully incorporate the latest shift. Otherwise, the original intent of the change falls short. It's important for an organization to avoid oversubscribing its resources.

CULTURE SHOCK

Sun Sun Chung, VP of Global Learning and Development and Strategy Integration, Pfizer

Up until the end of last year, there was a perspective—or hope—that the changes and upheaval that the industry and the company were going through as a result of the economy would stop. Personally, I experienced a shift in my mind—instead of waiting for change to slow down, I asked myself: How do we operate better with the expectation that change is constant and faster now? A lot of the answer deals with our culture.

In recent years, our strategy has been to move from a country-, region-, or location-based leadership and hierarchy to a much more matrix-business-unit structure with a focus on therapeutic areas or diseases. It's a cultural shift that has moved away from a direct command-and-control model. In fact, when we got a new CEO in 2010, we did a full cultural

AN ORGANIZATION CAN BECOME FLEXIBLE AND ACCUSTOMED TO CHANGE SO THAT MOVING FAST BECOMES PART OF THE CULTURE. THE RISK, THOUGH, IS THAT HASTY DECISION-MAKING CAN CAUSE POOR OUTCOMES, AND PEOPLE START TO GET TIRED.

analysis to determine whether we have what it takes to achieve our goals and where we want to be in the longer term. The answer was no. So we've been really working on shifting our culture around this matrix-, rather than location-based, model. In some instances, this required developing different skill sets to help employees understand how to operate within the new framework. Instead of having managers come in for a three-day training session or dumping a binder on their desk and saying, "Here's everything—now go away," we've spread training across six to eight months in a curriculum focused on key business concepts, financial acumen, and other skills to adjust people to the new structure.

CONCENTRATE ON THE CONTROLLABLE

Bill Tarnacki, Director of Talent Management and Corporate HR, Pulte Group

The pace of uncontrollable change was so fast between 2010 and 2011 that dealing with it was almost impossible. We were being impacted tremendously by rapid changes in industry dynamics, including changes to legislation that were impacting new home sales. For example, Pulte's mortgage arm was contending with what seemed to be two to three new pieces of legislation a week, so whatever you thought you were doing to approve mortgages the week before changed so that you couldn't approve them anymore.

At one point, we were looking to partner with a national bank to comply with various certification laws, but within several months of kicking off the process of finding a partner, the legislation changed. We wasted a ton of time and money going on a path that new legislation ultimately invalidated. This kind of stuff happens all the time, and the best thing a company can do is try to manage the change that it can control and recognize that other change is uncontrollable—and then have some sort of monitoring process to gauge the latter. When it comes to legislation, for instance, it's helpful to have feet on the ground monitoring congressional discussions to get a sense of what bills are running through.

We also look more broadly toward vendor education. Instead of looking at the vendor across from us and pounding the table and saying, "We demand that you shift and do it this way," we educate and help vendors up and down the supply chain. They don't operate independently, and helping them do their work better helps us too.

THE SPECIAL PROBLEM OF SPECIAL SKILLS

Eric Bieganksy, North American Change Management Practice Leader, KPMG

We often hire for specialized technical skills because clients are demanding depth in targeted areas to add value to solve their business problems. The challenge becomes how to develop these people when they lack the appropriate breadth, business acumen, or "fit." For instance, right now, we have multiple large client engagements for which we need very specialized science skills, so we hired the right people—but what happens when that project is over? Some of these people don't have the breadth and depth of expertise across the board to reinsert themselves into our practice.

We also deal with clients on the opposite extreme. The client may have five hundred people in the finance function, and no one has a specialized role—everyone is a Jack or Jill of all trades. It's very inefficient. You clearly don't want that, so you need some degree of specialization. But if you tip the needle too far in one direction, you have a problem.

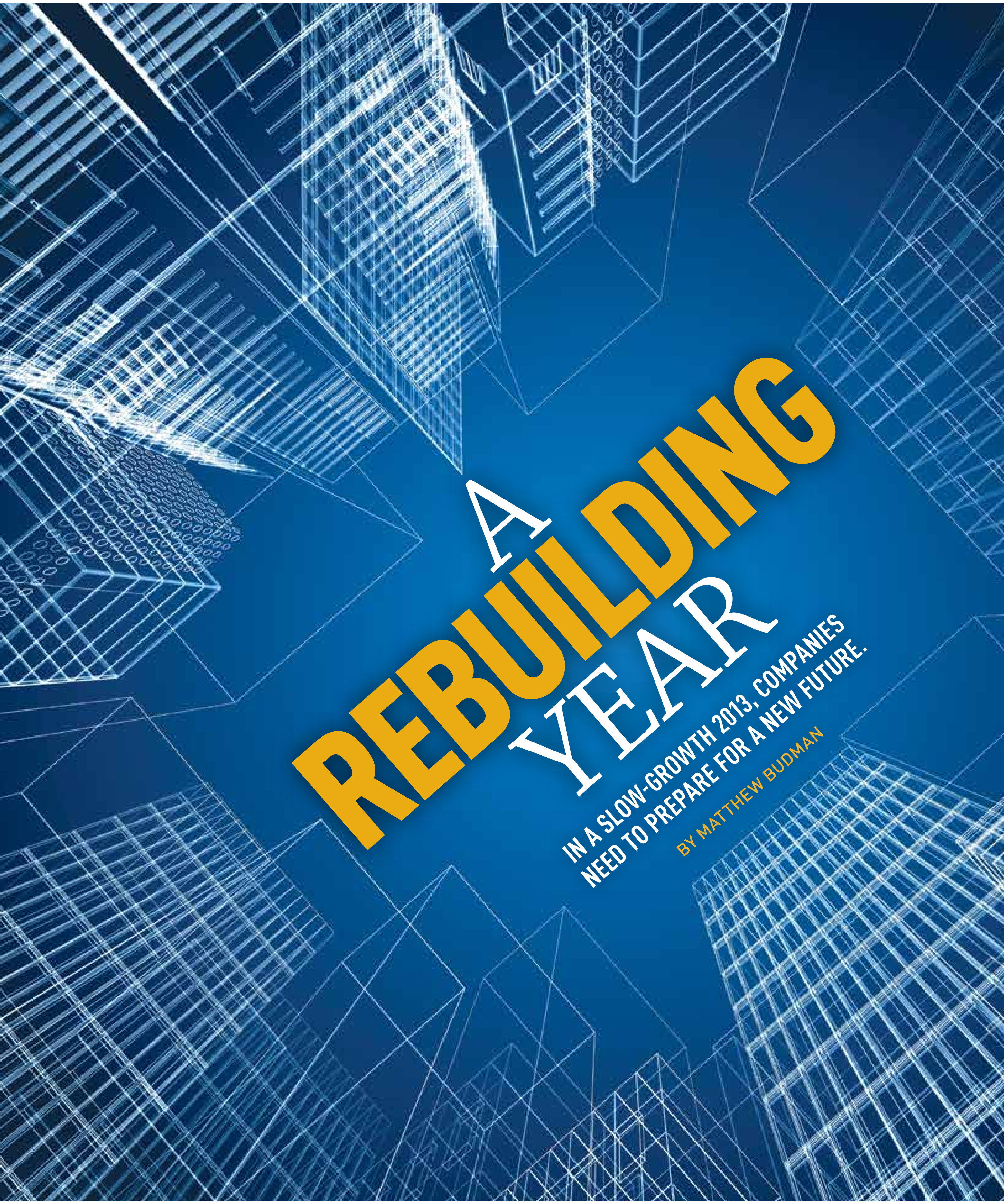
So what's the solution? I've seen a lot of clients choose a flexible, contract-labor force. When they need people with certain skills, they hire them without bringing them into their payroll. That might work to an extent, but you cannot just farm out 30 percent, or whatever, of your workforce. There's no perfect answer, other than to say that we try to hire as much as possible for baseline, more transferable, traits related to interpersonal relationship management and emotional intelligence. My bias is to be extremely careful when we're hiring someone for a very niche, technical fit—because unless we can generate sustainable long-term value from a worker, we're going to have problems down the road.

THE THREE-YEAR RULE

Patsy Doerr, Global Lead for Diversity & Inclusion and Learning & Development, Thomson Reuters

Because of the pace of change, people get exposed to a lot more experiences in a shorter time frame than they used to. This gets more acute when you go into rapidly developing economies, where people are exposed to four to five times as much change as at corporate headquarters. I know a lot of people find this frustrating, but I think this is all for the positive. It helps accelerate learning. Sure, things come at us faster these days, but technology also makes it possible to get things done faster.

Everything is a double-edged sword, though. When it comes to learning new skills or understanding different functions of a business, three years, on average, is a good amount of time to be in a role and make an impact before moving on. A lot of people wish to leave earlier, while others stay on too long in their roles. Being in a role for only eighteen months or a year, for example, is just not enough time to learn what you need. I almost wouldn't even count it as a valuable experience. ■

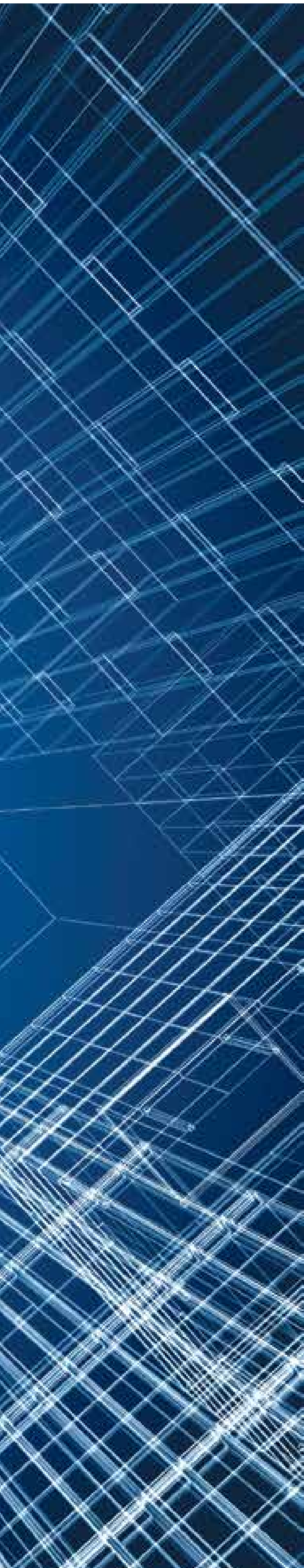


A REBUILDING YEAR

IN A SLOW-GROWTH 2013, COMPANIES NEED TO PREPARE FOR A NEW FUTURE.

BY MATTHEW BUDMAN

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



BART VAN ARK, CHIEF ECONOMIST OF THE CONFERENCE BOARD, WOULD LOVE TO BE OPTIMISTIC ABOUT THE DIRECTION OF THE GLOBAL ECONOMY. BUT HE'D RATHER BE RIGHT. WHEN HE LOOKS AT EUROPE (RECESSION-WEARY AND FACING POTENTIAL SHOCKS TO COME), CHINA, INDIA, AND BRAZIL (DRAMATICALLY SLOWING), AND THE UNITED STATES (STILL IN POLITICAL STALEMATE), HE SEES A WORLD HAVING TROUBLE GETTING BACK ON TRACK.

That's not to say that van Ark is urging CEOs to remain cautious and conservative when it comes to investment and expansion—emerging economies' maturation in particular provides real opportunities for companies looking to offer a wider range of goods and services. A slow-growth economy truly can have an upside.

JUST HOW GLOOMY IS YOUR FORECAST FOR 2013?

Compared to some of the other major forecasts and projections out there, we are somewhat downbeat. We are looking at a slightly slower 2013 than 2012, mainly because we don't see much recovery in the United States and certainly not in Europe or Japan. But where we differ from other forecasters most is that we do not see the emerging economies recovering the growth rate they had a couple of years ago.

Looking further out to the end of the decade and beyond, we see a slower growth rate in the global economy, related to factors like demographics and the maturation of the emerging economies. That is easily interpreted as bad news, but slower growth has its positive sides too. Rather than aiming for double-digit growth rates, there may be more room for the creation of value as middle classes mature and demand a wider variety of products and services. When we prepare for that, many companies will experience a positive side to this.

IN YOUR PUBLISHED 2013 FORECAST, YOU CITE A WIDE RANGE OF ISSUES: THE CONSUMPTION DEFICIT IN CHINA, THE SAVINGS DEFICIT IN THE UNITED STATES, THE GROWTH DEFICIT IN EUROPE AND JAPAN, THE UNFULFILLED GROWTH POTENTIAL OF INDIA AND BRAZIL. ARE THESE PRIMARILY PROBLEMS THAT EACH REGION NEEDS TO ADDRESS INDEPENDENTLY, OR ARE THERE STEPS THEY SHOULD BE TAKING TO WORK TOGETHER?

The world economy is completely connected, so there is definitely a need for global coordination. But that is a problem at the moment. The World Bank and the IMF are struggling to find a new model to be effective in a world in which emerging markets are making up 50 percent or more of global output, and the World Trade Organization needs to take on intellectual-property issues in a bigger way than they do now. Simple trade rules don't work anymore. With deeply integrated global value chains today, you are simply shooting yourself in the foot if you try to protect yourself at the cost of others. But often, in a down economy, political sentiment leans toward protectionism, so it is an uphill battle.

Having said all that, the world is not flat either. Individual governments need to do the hard work of structural reforms in key markets: financial, housing, energy, labor. In the run-up to a structural crisis, these markets become unstable as demand and supply grow out of sync. And so far, many of the reforms are not going very well. Reforms in financial markets don't seem to be getting at the heart of the problem, which is to help capital flow to those areas of the economy where it can be most productively used. Too much capital is sitting on the balance sheets of large companies that are not using it, while banks are putting up stringent conditions when lending to small and medium-sized businesses or to new entrants into the housing market. There should be a higher sense of urgency around these reforms.

SO YOU NOW CHARACTERIZE THE GLOBAL ECONOMY AS BEING IN A STRUCTURAL CRISIS?

I think everyone agrees that the 2008-09 crisis was not a normal recession. The most visible structural issues resulted from the huge imbalances in some of these markets, especially the housing market and the financial market. But problems were also becoming evident in other markets. In the labor market, our educational system is failing to churn out the human capital that companies need to invest to satisfy their demand for high skills. And in the energy market, in a global economy that's still largely dependent on oil, our production and needs are unsustainable; even with more supply coming from recent discoveries like shale gas, as we are cutting nuclear and struggle to get more supply of renewable energy, we need to use energy more efficiently.

All these structural problems came together in this crisis, and we need to work ourselves through the needed reforms. And that takes time—five to ten years is very normal, meaning that we may be only halfway toward getting out of this hole.

> “I think everyone agrees that the 2008-09 crisis **was not a normal recession**.

WHAT STRIKES ME ABOUT THE PHRASE *STRUCTURAL* CRISIS IS THAT FOR THE LAST FEW YEARS WE'VE BEEN HEARING ABOUT STRUCTURAL UNEMPLOYMENT, A PHRASE OFTEN INVOKED IN AN EFFORT TO REDEFINE UNEMPLOYMENT TO BE LESS OF AN IMMEDIATE CONCERN.

Higher structural unemployment is absolutely not an excuse to do nothing—it offers all the *more* reason to act! Structural reforms are critical to bring the demand and supply for capital back in sync.

We should also not fall into the trap of thinking that all the increase in unemployment is structural. Many argue—Paul Krugman is perhaps the most prominent voice—that this crisis is still foremost a demand problem: There was a deep recession in which consumption fell, business investment collapsed, and employers and especially governments massively shed jobs. They believe that above all else, we need to create an environment in which everybody starts to spend again.

DO YOU CONCUR?

Certainly, there is an element of truth to this argument: If you create a hole and produce less than the capacity of your economy, you want to fill the hole and get back to that capacity. I'm only skeptical about how much mileage you'll get out of another stimulus beyond the trough of recession we were in in 2009. Once you're out of the depths, as we are now, these demand-driven policies don't pay off that quickly and easily displace private investment that needs to get jump-started.

But the supply side of the economy is becoming a worry as well. Five years into a crisis, the capacity of the economy itself begins to erode; it's harder to get people who were laid off back into the labor market if they've been out for too long. Companies are just not reinvesting anymore, and worse, they are not using their technology and innovation—at least, they're not bringing products to market, and if you leave innovation too long on the shelf it becomes useless. The base from which the economy can begin to grow becomes weaker, and as a result the speed limit of the economy—what in economics lingo is called the potential growth rate—is slowing.

I KNOW YOU DON'T LIKE THE PHRASE "NEW NORMAL." IS THAT BECAUSE IT IMPLIES COMPLACENCY?

Yes. "New normal" suggests we're settling into a new environment that we need to accept. With our 2013 outlook, we're not intending to get people to see it as the unavoidable outcome. But without a change of course, this will be the emerging trend. When the speed limit is dropping, we need to strengthen the base so that we will be in a better spot going forward. We're now looking at a global trend growth rate of maybe 3 percent; with that we're not falling off a cliff, so to speak. But the downside risk is that we drop to 2.5 percent global growth. With world population growth of just over 1 percent, that would leave us only 1.5 percent for increased living standards, and that's a little meager given the challenges of aging populations and higher demand for health care, education, and a clean and safe environment. For that, we need to get back to that 3 or 4 percent global growth rate.

So I don't want to call this normal. In fact, we had an *abnormal* situation before we got into this crisis, with a global growth rate of 5 percent during some years, which is impossible to sustain and mainly resulted from rapid catch-up in emerging economies. But I would not call 2.5 percent normal either.

THERE ARE MANY DIFFERENT WAYS TO FIGHT THIS CRISIS, AND EFFORTS HAVE TO BE BALANCED AND REASONABLE—WITHOUT BREAKING THE BANK.

IS ANY NATIONAL OR REGIONAL ECONOMY HANDLING THE RECOVERY SO WELL THAT OTHERS SHOULD EMULATE ITS EXAMPLE?

The economies with prudently regulated banking sectors, like Canada, have had an easier time working through the crisis. Germany did the right thing at the time of the recession by keeping employees on payrolls, which was expensive at the time but gave the economy a head start once the recovery began. Australia has been lucky because it's a commodity exporter and has benefited from China's rapid growth.

The key is to not get dogmatic about one instrument that works and another instrument that doesn't. You have to pull all the tools out of your toolbox and begin to work with them. And what works in one place cannot be easily copied elsewhere; every country's institutional and political settings are different. I doubt whether the United States could have easily emulated the worktime-shortening scheme that Germany implemented, but there might have been room for directly focused tax breaks for companies when protecting payrolls at least temporarily.

There are many different ways to fight this crisis, and efforts have to be balanced and reasonable—without breaking the bank. And timing is important: Some measures need to be taken immediately to avoid things getting worse; others, focused on making things work better, can come later but should not be forgotten.

SOME EUROPEAN COUNTRIES BET HEAVILY ON AUSTERITY MEASURES. WHAT LESSONS HAVE THEY LEARNED?

That depends who you talk to. Some people—call it the German camp—argue that austerity has been necessary to begin to bring budgets back into balance and to create responsible, disciplined economic policy. On the other hand, in some of the most affected countries, like Spain, if there's too much austerity you're not tackling the problem of the slowing speed limit. You need to do long-term investments, in education and innovation, and do the reforms, to make sure that the economy is regaining some of its vitality.

The overall lesson is not to overdo austerity, but even with investment there needs to be a credible perspective to lower the deficit so as to not lose the financial markets' confidence. We continue to work on models and scenarios that show that productivity growth and innovation, together with moderate and focused increases in government expenditures—and cuts elsewhere—can help to get back on track. It will take a long time, though—up to a decade.

WHAT ABOUT THE SHORT TERM? ARE YOU FORECASTING ANY GROWTH FOR EUROPE IN 2013?

If we're lucky, we'll have some growth, mainly from recovery effects. Right now, financial stability has been created by the actions of the European Central Bank—at least their willingness to take action. But it is conditional on a banking union and on the need for countries in trouble to apply for support from the European Stability Mechanism, which is jointly run by the governments, first. Progress is slow, as there is no sense of direction in Europe. If policymakers don't figure out how to raise the speed limit in Europe—it's much lower than in the United States—and whether they want to do that together as a European Union or everybody on their own, we'll be back in trouble soon enough.

ESPECIALLY IF THERE'S AN IMMEDIATE CRISIS WITH SPAIN OR GREECE, RIGHT?

A Grexit, as they call the Greek exit option, is pretty much factored in, I think. But the uncertainty of that event is the contagion risk that it would bring back financial instability. A collapse of the Spanish economy could very easily contaminate financial markets around the world.

HOW MUCH WILL THE CONTINUING EUROPEAN SLOWDOWN HOLD BACK GLOBAL GROWTH?

It's a very large part of the global economy, between 20 and 25 percent, and the recession has definitely hurt emerging markets as well as the United States, which exports a lot to Europe. I'd be more worried, though, about lower profits from operations—and especially more instability in global financial markets.

IS ECONOMIC UNREST IN EUROPE AFFECTING WORKER MIGRATION BETWEEN COUNTRIES?

Well, labor markets are pretty open, so you already see quite a bit of immigration within Europe—big flows of people out of southern Europe and into Germany and the United Kingdom. Unemployment rates in Greece and Spain are over 25 percent; every other young person is out of work. These people move. In fact, these are golden days for foreign-language institutes—demand has been higher than ever. Migration is an important adjustment mechanism—people move where there are the highest returns on their labor.

AND WHAT ABOUT IMMIGRATION FROM OUTSIDE EUROPE? IS THAT UNDER THREAT AS PEOPLE LOSE THEIR JOBS?

When it comes to knowledge workers from the rest of the world, there's a certain openness: Most countries recognize that they can use—that they *need*—knowledge and high-skilled workers. The problem is that there's also a big inflow of people who are not bringing the skills that are needed in an already slow environment. Countries need more selective immigration policies that are really being enforced. Look at Canada and Australia, two countries

> "A collapse of the Spanish economy could very easily **contaminate** financial markets around the world.

that have sophisticated immigration systems that make sure that they're getting who they need and keep out who they don't need, and also maintain a policy for refugees that have a humanitarian need.

In Europe, it's much harder to reach agreement around these policies, since countries have different views about what they need and from which parts of the world new influx might come. Moreover, as internal borders are gone, one leak in the system affects everybody. I'm afraid that immigration policy is not going to change very quickly in Europe, and that's a drag, because the demographic problems are even bigger there than in the United States. Dealing with it would require real political courage.

WHAT ABOUT POTENTIAL IMMIGRANTS WHO AREN'T HIGH-SKILLED KNOWLEDGE WORKERS? DOESN'T BRINGING IN NEW, YOUNGER PEOPLE BRING VITALITY TO AN ECONOMY?

That is true, but it requires a change in mindset on how to get those immigrants going in their new country. Letting them in is the easy part—there's education, housing, social welfare, and health care, and all that needs to be organized and paid for. Plus, you need to have an economy that's less regulated so people can easily start new businesses. Even if you can, as is more or less the case between European countries, these small businesses need to get a chance to grow. The business environment in Europe isn't all that friendly to new start-ups.

Good immigration policies are difficult and require real commitment and wide political support. Even in the United States, a country built on immigration, there is concern about destabilizing effects from immigrants on labor markets, even though there isn't much evidence for that claim. In a world where fortunes are so different between countries, it quickly becomes unmanageable, so very clear and transparent policies are needed to allow low-skill people to come in. Effective immigration policies raise tough choices that require a lot of political support—who we let in, who we don't let in, and how many.

LET'S LOOK AT EMERGING ECONOMIES. UP UNTIL THE FINANCIAL CRISIS, ECONOMISTS REGULARLY MENTIONED CONCERN ABOUT THE CHINESE AND INDIAN ECONOMIES OVERHEATING. IN SOME WAYS, IS IT BETTER THAT GROWTH THERE IS SLOWING?

Yes—there was a real risk of overheating and inflation. India was probably going faster than its speed limit for many years—as was Brazil, which grew 7 or 8 percent in 2010, whereas its speed limit was probably around 4 percent. And the Chinese economy certainly was overheating, with inflationary pressures emerging last year. That needed to be tackled, because inflation is particularly harmful to emerging economies, where it can lead to social unrest among the poor and slow down the emergence of a middle class.

But the global crisis and weaker markets for exports have pushed the largest emerging economies below their speed limit, and these countries have tried to jump-start growth in different ways. China has been throwing more capital at the economy, especially to state-owned enterprises, and there is a lot of churning of capital in a growing unofficial gray market, which usually raises the cost of capital. Of course, the return on capital is already so low that adding more capital is not going to create significant returns.

In the case of India, the problem is actually more political than economic. The slowdown is complicated by the fact that the markets are not working very well—the government's structural-reform agenda is in ruins, with no political support. India really needs to pursue that agenda, because at least two-thirds of that economy is still not integrated into the national economy, let alone into the global economy.

In Brazil, growth has slowed well below 2 percent this year. The government has announced a lot of infrastructure investment, but that takes time to get approved and get built, so I think Brazil will improve only gradually. The country needs to become more productive and more competitive, and it needs to revamp its tax system, which is very complicated. Those are challenges that go way beyond quick money for more infrastructure.

ARE THE EMERGING ECONOMIES STILL GROWING IN THE SAME WAY AS IN THE PAST DECADE?

No, that's the biggest and very important change. Once these countries get to 40 or 50 percent of the development level of the mature economies, the growth model has to change. You need more skilled people, you need to do R&D yourself, you need companies to be able to integrate into their own value chains, and you need to give a larger role to the markets and other institutions, because things get too complex for governments to directly control. And growth naturally slows during that transition. If you have to innovate yourself, it's much harder than borrowing technology from somebody else. In a mature economy, services are more important, and services by definition have slower productivity growth; they don't add as rapidly to economic growth.

WHAT DOES THAT MEAN FOR BIG COMPANIES IN THE WEST?

I think it can be very good news for companies in advanced economies. The markets in emerging economies will be more mature and more diverse, needing more and different products and services. There will be more demand for sophisticated technology. Going forward, economic growth will be *better* growth—or at least it could be if countries don't mess it up, policy-wise.

The most important thing for Western business is to not expect that the same type of old growth can continue. It is worrying when I hear business leaders of Western companies in China saying that their head offices continue to expect double-digit growth. But these will remain strong markets with high-margin markets and great opportunities for the best companies to not only survive but thrive.

WILL WE ALL HAVE TO SHIFT OUR ATTITUDE ABOUT FUTURE GROWTH, FOR BOTH ECONOMIES AND COMPANIES?

Never expect that you can go back to an old normal. We can't go back to the economy of the late '90s and early 2000s—that was a period of extraordinarily rapid growth on the back of an IT boom, a huge amount of additional globalization, proliferation in the financial sector, and a lot of deregulation. Some of that growth was just not sustainable, and that's why the whole thing crashed. We have to accept that that cannot come back.

However, some of the gains of those times will ultimately set us up for more innovation and value creation. It might very well be better for people's quality of life, for the environment, for education and health care—again, provided we don't mess it up.

WHEN IT COMES TO EXPECTATIONS, WHAT ABOUT FOR CITIZENS OF EMERGING COUNTRIES, WHO HAVE LONG BEEN PROMISED WESTERN LEVELS OF CONSUMPTION?

The most frightening scenario is that if we are not able to fulfill the demands of the emerging middle classes, and that we are creating a really bad environment, socially and economically.

SPEAKING OF MIDDLE CLASSES IN BOTH EMERGING AND INDUSTRIALIZED COUNTRIES: I KEEP SEEING ARTICLES ABOUT HOW U.S. MANUFACTURING OUTPUT IS RISING BUT THAT, AT LEAST IN THAT SECTOR, IT'S A JOBLESS RECOVERY; MANUFACTURERS NOW NEED ONLY HIGHLY TRAINED WORKERS, AND NOT MANY OF THEM. IS THAT TREND HAPPENING ELSEWHERE IN THE WORLD?

Yes, but we shouldn't think short-term here, although I acknowledge you have no interest in the long term if it's your job that's on the line. It is true that a lot of the current technology is creating higher productivity growth and fewer jobs, replacing existing jobs. That's *existing* jobs—there will be new jobs coming around, and the question is, "What are these jobs going to be?" Of course, we don't know, but every past technology innovation has unexpectedly opened up new sectors that create jobs. One great example comes from our own Help Wanted OnLine data, which showed that the number of app jobs—the number of American workers spending time creating apps for tablets and smartphones—is now around 500,000, none of them existing a few years ago.

Also, many jobs now originate in a nontraditional labor environment. Labor markets are beginning to look very different, with fewer full-time jobs with one employer. Many jobs will be more flexible; people will work more independently and more ready to switch jobs. This has huge policy implications: Where are you going to get your insurance? Who is going to pay for your pension? We need to think hard about these issues, because again no policy change can really mess this up.

All in all, I'm reasonably optimistic that we will be able to continue to keep participation rates in the economy at a decent level. And with slowing demographics, we ultimately need *more* people relative to the population to do the job.

BUT WHO IS GOING TO CREATE THOSE JOBS? IT'S BEEN A FEW YEARS SINCE PEOPLE BEGAN URGING COMPANIES TO INVEST THE BILLIONS IN CASH ON WHICH THEY'RE SITTING, AND WE STILL HAVEN'T SEEN ANY REAL INVESTMENT. IF GROWTH WILL BE SLOWER FOR THE FORESEEABLE FUTURE, WILL CEOs EVER SEE A REASON TO INVEST AND HIRE?

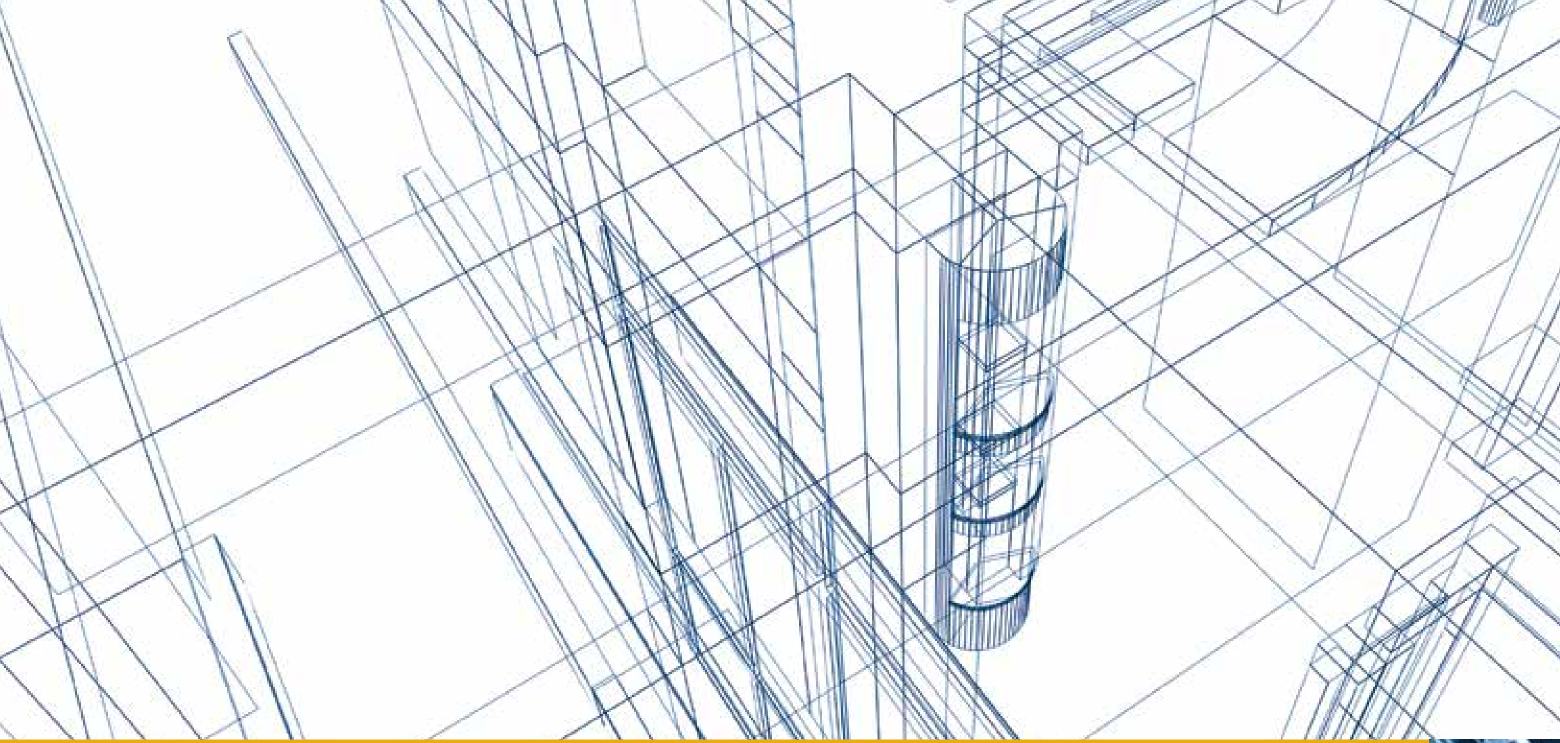
Yes, because it is confidence that needs to lead the recovery. Consumer confidence is actually doing reasonably well, coming out of a very deep hole. It may not yet be strong every month, but I think we're gaining traction with the consumer as housing markets improve and the labor market very slowly strengthens. Business confidence, by contrast, is really low, partly because CEOs are worried about the fiscal cliff and other policy changes that may or may not happen. Companies are holding back because they're just not certain whether investing now isn't creating a bigger problem for them down the road. Confidence is necessary for people to extend their perspective again and begin to look at investment cycles of five years.

IS THE U.S. POLITICAL STALEMATE REALLY PLAYING THAT MUCH OF A ROLE IN CEOs' DECISIONS?

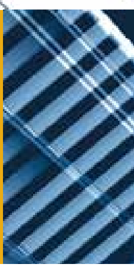
Absolutely, rightly or wrongly.

SO IF LAWMAKERS SOLVE THE FISCAL-CLIFF PROBLEM—OR AT LEAST PUT IT OFF CONVINCINGLY—SHOULD WE EXPECT A WAVE OF INVESTMENT?

If we get to a "grand bargain" anytime soon, so that we have a broadly supported deficit-reduction strategy, then we'll get more economic growth, the most important way to reduce the deficit. But we'll probably look more at a fiscal slope than a cliff, and the uncertainty is how fast we'll go down the slide before getting back on our feet. We give it half a year, making early 2013 weaker in growth than the second half of the



THIS CRISIS HAS BEEN WITH US FOR A COUPLE OF YEARS, AND IT MAY BE WITH US FOR A FEW MORE, AND WE HAVE TO ORGANIZE OUR SOCIETIES, POLITICS, AND BUSINESSES IN SUCH A WAY THAT WE COME OUT OF IT IN A BETTER PLACE.



year. The underlying dynamics of the economy seem to be strengthening.

DOES IT MATTER THAT U.S. CORPORATE PROFITS JUST HIT A RECORD HIGH?

Well, profits are nice, but if you don't see an opportunity to reinvest and to grow, your business is under a long-term threat. You can hold out longer if you have a lot of capital on the balance sheet, but it doesn't make you grow.

IF WE'RE RESETTING OUR EXPECTATIONS AND LOOKING AT SLOWER GROWTH FROM NOW ON, HOW WILL WE KNOW WHEN WE'VE RECOVERED, SO TO SPEAK?

For the U.S. economy, we would see unemployment below 7 percent and perhaps below 6 percent. And people need to see rising living standards again. Americans are seeing an ongoing decline in income growth, and that's really, really bad for the chances of recovery. On a philosophical note, I don't think you can speak of recovery if people feel that their kids will be worse off than they are. Incomes need to rise for people to sustain their lives and to increase the quality of their lives and that of the new generations.

ARE COUNTRIES FOCUSING ENOUGH, GLOBALLY, ON THE ISSUE OF UNEMPLOYMENT?

Politicians very well understand that unemployment is a time bomb for their own future and that of their constituents. In emerging economies, if many people cannot make a living or are too close to poverty level, it creates huge social unrest. In more mature economies, the bigger concern is to make sure that the participation rate in the economy remains relatively high and that people see opportunity for building their own lives, whether that is through a formal job, an informal job or a volunteer job or staying engaged with society in other ways—something important or valuable to do. That's more important than the absolute rate of unemployment. But we should be able to sustain a high participation rate in the economy.

SO THE NUMBERS LOOK MORE GLOOMY THAN THE REALITY?

The numbers point at the challenge ahead of us. The reality is that things will get better. They always do. The question is where and when and how. We need to make sure that it happens sooner rather than later and that it happens in a way that is benefiting a broad section of our economy and population.

Some say we are at a tipping point. Maybe. I'd argue for some reflection, too. This crisis has been with us for a couple of years, and it may be with us for a few more, and we have to organize our societies, politics, and businesses in such a way that we come out of it in a better place. ■

"What's the BEST BUSINESS BOOK YOU'VE READ IN THE LAST YEAR?"

HAS THE BACKLASH ARRIVED? YOU KNOW, THE ONE AGAINST THE SHORT-ATTENTION-SPAN CULTURE IN WHICH THOUGHTS ARE NO MORE THAN 140 CHARACTERS AND PEOPLE READ BOOKS ON THEIR SMARTPHONES?

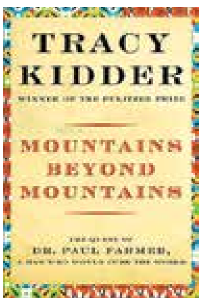
For this year's survey, when we asked a series of authors of current business books to name recent favorites and inspirations, no one offered the usual, "I don't read business books"; neither did anyone cite *The Hunger Games* or, heaven forbid, *Twilight: Breaking Dawn*. This is a serious collection of serious books—works that take on international economic trends, chronicle important lives, and examine the ways in which our minds work. And a few even qualify as holiday vacation reading, if you don't mind learning something along the way.

—MATTHEW BUDMAN

RANDY GAGE:

As both a writer and speaker, I'm always interested in books on communicating better, and I just finished one that all businesspeople should read. It's by Terri L. Sjodin, it's titled *Small Message, Big Impact: The Elevator Speech Effect*, and it's a fascinating look at how to make your message compelling, persuasive, and, most of all, effective. She takes the idea of the elevator pitch to a whole new level. Required reading for anyone serious about communicating better.

■ MR. GAGE is author of, most recently, *Risky Is the New Safe*.



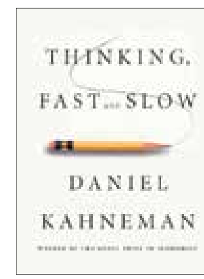
PATRICIA CRISAFULLI:

As we researched and wrote our book on what we termed the "ultimate turn-around story" that is Rwanda in the eighteen years since the genocide, my co-author Andrea Redmond and I read numerous books for information—and inspiration. One of the best, by far, was Tracy Kidder's *Mountains Beyond Mountains: The Quest of Dr. Paul Farmer, a Man Who Would Cure the World*.

Paul Farmer has traveled the world, from Haiti to Peru, Russia to Rwanda, bringing hope and health to the poorest, who suffer from devastating illnesses from HIV/AIDS to resistant strains of tuberculosis. *Mountains Beyond Mountains* captures powerfully the vision of a man who would cure not just the sick who often live in miserable corners of the world but also the well and well off, who suffer myopia and even blindness where the needs of others are concerned. In places and with cases that would make others throw up their hands in despair, Farmer finds a way, one patient at a time. If you wonder what difference one person can make (particularly in a world that suffers from economic maladies), then prepare to be inspired.

■ MS. CRISAFULLI is author or co-author of nearly twenty books, most recently *Rwanda, Inc.: How a Devastated Nation Became an Economic Model for the Developing World.*

HEIDI GRANT HALVORSON:



Are humans rational and essentially selfish? Sometimes. Are our perceptions of other people—be they strangers, colleagues, or lovers—faulty and skewed? Usually. Can our intuitions be trusted? Can we make good decisions? Yes—under the right conditions. The bad news: Human thinking and reasoning is complicated and riddled with flaws and biases. The good news: Those flaws and biases aren't random—they are predictable. So you can learn to compensate for them, or take advantage of them, provided you understand how thinking works.

In *Thinking, Fast and Slow*, Nobel Prize-winning psychologist Daniel Kahneman takes you on a tour of the mind. He explains that there are really two systems of thinking: one that is thorough, effortful, and largely accurate, and one that is quick, efficient, and frankly lazy. Knowing how each system operates—and when—will transform your understanding of yourself, your employees, and your customers. Technically, *Thinking, Fast and Slow* is not a business book. It's a book for thinking people about thinking people. Which makes it, in my opinion, one of the most practically useful books you'll ever read.

■ MS. HALVORSON is author of *Succeed: How We Can Reach Our Goals, Nine Things Successful People Do Differently*, and the forthcoming *Focus: Use Different Ways of Seeing the World for Success and Influence.*

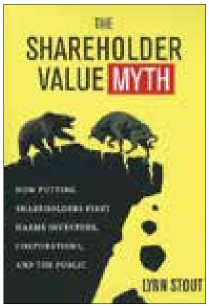
MICHAEL J. MAUBOUSSIN:

It's hard to imagine a longer lever in life than the ability to make good decisions consistently. Our minds are just not designed to be effective in dealing with many of the decisions we face today. Daniel Kahneman's *Thinking, Fast and Slow* leads a comprehensive tour of our cognitive biases. Kahneman entertains and educates as he relates the profound findings of his remarkable career.

For example, Kahneman suggests that you think of the mind as having two systems. System 1 is fast, automatic, and very hard to train. System 2 is slow and deliberate, but malleable. His point is that most of us cruise through life relying primarily on System 1, and for the most part that's fine. But in certain situations, our System 1 spits out the wrong answer, and unless System 2 is there to check the work, we make a mistake. Knowing when System 1 is likely to mess up is very useful—it basically tells you when you can go with your gut.

This book is rich and deep and warrants periodic re-reading. If you embrace the implications of Kahneman's work, you will think about problems differently and more effectively.

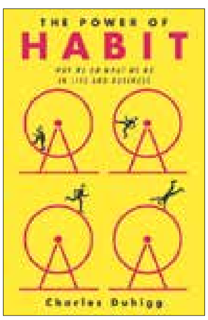
■ MR. MAUBOUSSIN is an investment strategist, adjunct professor at Columbia Business School, and author of, most recently, *The Success Equation: Untangling Skill and Luck in Business, Sports, and Investing.*



JEFFREY D. CLEMENTS:

Corporate directors, CEOs, and managers are duty-bound to put shareholders first, right? Wrong! In the brilliant *The Shareholder Value Myth: How Putting Shareholders First Harms Investors, Corporations, and the Public*, Cornell law professor Lynn Stout explains not only how everything we've been told about "shareholder primacy" is untrue but how this false "rule" is bad for everyone, including shareholders. This plain-English book, from one of the nation's leading corporate-law experts, shows how the mythical and damaging rule of maximizing shareholder value came to take hold, how much the myth departs from economic and legal reality, and how much better business, society, and all people, including shareholders, will be when we free ourselves from the myth of shareholder value to return to the public purpose behind corporations.

■ MR. CLEMENTS, an attorney and investor, is co-founder and president of Free Speech for People and author of *Corporations Are Not People: Why They Have More Rights Than You Do and What You Can Do About It.*

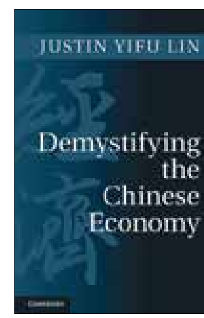


LINA M. ECHEVERRÍA:

It has been said that most of the important things in life are invisible. And it certainly seems as if habits are one of the most potent invisible forces in our lives. Based on the most up-to-date neuroscience, Charles Duhigg makes the case in *The Power of Habit: Why We Do What We Do in Life and Business* that in both our personal and business lives, we can change old habits, and acquire powerful new ones. The second part of this book leads us in its exploration of the changing of fundamental habits of organizations through the ripple effect of new habits cascading through organizations and replacing older ones. This may be our answer to incorporating the organizational wisdom that brings success in other cultures. I believe in the creation of cultures of innovation, not through large-scale, top-down efforts but, rather, through the fostering at the heart of key small groups clearly identifiable cultures based on values, and encouraging them to diffuse to the larger organization through exchanges and interactions.

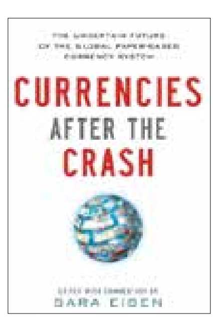
■ MS. ECHEVERRÍA is a former VP at Corning Inc. and author of *Idea Agent: Leadership That Liberates Creativity and Accelerates Innovation.*

SCOTT REYNOLDS NELSON:



In *Demystifying the Chinese Economy*, World Bank chief economist Justin Yifu Lin tells a very different story about the Chinese miracle than most books on China. Why did China fall behind the rest of the world between 1700 and 1950 after inventing gunpowder, movable type, and the monastery? An efficient civil-service system absorbed the nation's geniuses without teaching them math or the scientific method. Thus China got a well-run state but fell behind in chemistry, steam, and steel. How did China innovate in the last fifty years? By letting Germany, Japan, and the United States devote billions to inventing while China patented or borrowed methods the big boys had already discovered. Written as a series of lectures to young Chinese economics students, the staunchly free-market Lin mixes Confucius, Marx, and David Ricardo in a story studded with modern examples of how innovation happens. A readable romp through the ancient and modern worlds.

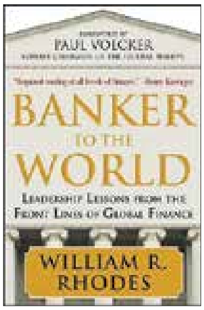
■ PROFESSOR NELSON teaches history at the College of William and Mary and is author of, most recently, *A Nation of Deadbeats: An Uncommon History of America's Financial Disasters.*



BEN EMONS:

Sara Eisen's *Currencies After the Crash: The Uncertain Future of the Global Paper-Based Currency System* takes a unique approach by inviting renowned strategists and academics who have extensively published on foreign exchange. The content is not academic—it's easy to read, practical, and up to date, with applicable ideas; a broad audience can get a good idea what currency systems there are in the world and what is changing after the 2008 crisis—most of all how the dollar standard is morphing into a dual reserve currency system between the dollar and Chinese yuan and perhaps a third reserve currency too. A good book to read about the world of currencies and rapid change of the financial system.

■ MR. EMONS is a senior VP in the Newport Beach office of PIMCO and author of *The Financial Domino Effect: How to Profit Now in the Volatile Global Economy.*



DAVID X. MARTIN:

The best business book I read this year was William R. Rhodes' *Banker to the World: Leadership Lessons From the Front Lines of Global Finance*, covering the major global financial crises of the past few decades, focusing on how they were mediated, and what lessons were learned. It is essential reading for those who want to understand the current crisis in the Euro zone, and to learn what good leadership is all about. The book is especially compelling because Rhodes was in the eye of so many financial storms, and makes the reader feel as if he or she had a front-row seat. (I actually had a front-row seat in some of the crises, because I worked for Bill for many years at Citibank.)

Two stories in particular reveal why Bill was so successful at solving crises. The first occurred when he was on his way to China, and his plane blew a tire at a refueling stop. It eventually got back in the air, but—already over China—the pilot had to turn back because he had forgotten to file a new flight plan. Everyone I know would have given up and headed home at that point. But not Bill: He still managed to show up for the last two hours of the meeting—and actually make an impact. The second story concerns a colleague of ours who lost a parent and, after a short period of mourning, came back to work. We were in the middle of a major crisis, but Bill walked into the guy's office, closed the door, and spent an hour consoling him.

In short, Bill's success was based on the respect—and trust—he earned from the world's business leaders and statesmen, because he always did the right thing. In addition, everyone who knew him knew that Bill would never give up until the problem was solved. *Banker to the World* should be on every executive's bookshelf.

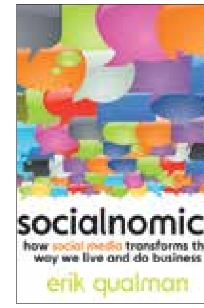
■ MR. MARTIN is a senior consultant at global management consulting firm Oliver Wyman and author of *The Nature of Risk*.

FRANK SAVAGE:

The most impactful book I have read recently is William Rhodes' *Banker to the World*. I know Bill well because we both served in the international division of Citibank and on the board of the Institute of International Finance. In Chapter 8, Bill states, "It's rare that one man or woman can carry out a major achievement alone. That's why building consensus is important to the process. Getting all stakeholders to play a role in the solution by giving them a voice in the process is an important way of accomplishing this. . . . Team building, consensus building, and innovative solutions are the keys to success." I am a firm believer and practitioner of team-building to accomplish an objective. It has worked with me, as well as for Bill, all over the world in different cultures. Building a consensus to address major world issues and challenges is more important now than ever. That is why Bill's words resonate with me.

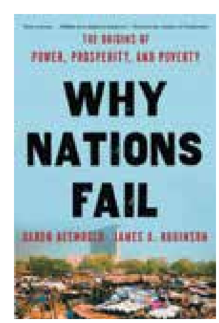
■ MR. SAVAGE is chairman emeritus of Howard University, CEO of Savage Holdings LLC, and author of *The Savage Way: Successfully Navigating the Waves of Business and Life*.

MARK FIDELMAN:



Of all the books that helped inspire me to write my own, Eric Qualman's *Socialnomics: How Social Media Tranforms the Way We Live and Do Business* stands out. The new updated and revised edition is loaded with examples and practical advice from well-known companies. Qualman does a remarkable job of breaking down the complex world of social media into actionable pieces so that even the social novice can implement. It is a discerning read for individuals involved in the fields of marketing, sales, management, strategy, or leadership.

■ MR. FIDELMAN is author of *Socialized!: How the Most Successful Businesses Harness the Power of Social*.



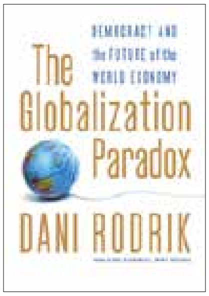
TIM KANE:

Why Nations Fail: The Origins of Power, Prosperity, and Poverty by economists Daron Acemoglu and James Robinson is a watershed in bringing the best research about economic growth of the last two decades to the popular reader. It is incredibly well written and overflowing with memorable narratives from Japan's breathtaking industrialization in the eighteenth century to the causes of imperial decline in ancient Rome. The book puts its finger on the truth hidden before our eyes, which is that institutions (not macro policies or central banks) create the incentives for people to create prosperity.

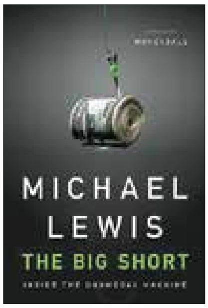
■ MR. KANE is chief economist of the Hudson Institute and author of *Bleeding Talent: How the U.S. Military Mismanages Great Leaders and Why It's Time for a Revolution*.

WILLIAM H. JANEWAY:

In *The Globalization Paradox: Why Global Markets, States, and Democracy Can't Coexist*, Dani Rodrik explicates the inherent conflict in seeking to combine national autonomy, representative government, and deep economic and financial markets. Decisively, full integration of international financial markets threatens to turn national governments into instruments of external forces or to force political integration. Rodrik's concise and accessible analysis illuminates the current crisis of the Eurozone as it does the stresses that ended previous episodes of extreme globalization, at the start of the twentieth century and again during the 1930s.



■ MR. JANEWAY is senior advisor and managing director at Warburg Pincus and author of *Doing Capitalism in the Innovation Economy: Markets, Speculation and the State*.



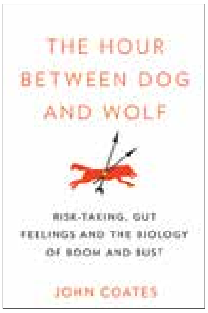
ROBERT D. AUSTIN:

Michael Lewis's *The Big Short: Inside the Doomsday Machine* provides deep insight into the complex events that unfolded during the 2007-08 financial crisis. It's a hugely entertaining story, told from the perspective of a few colorful characters who figured out what was really happening and then bet against prevailing wisdom to make huge profits. But it's also instructive—it shows how hard it is to buck the trend, even when you're right, and how the herd instinct sometimes commands even the brightest among us.

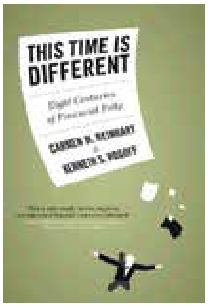
■ PROFESSOR AUSTIN is dean of the faculty of Business Administration at the University of New Brunswick and author of *Harder Than I Thought: Adventures of a Twenty-First Century Leader*.

MATTHEW E. MAY:

I found John Coates' *The Hour Between Dog and Wolf: Risk Taking, Gut Feelings, and the Biology of Boom and Bust* to be fascinating and revealing. The title comes from a Jean Genet quote that reads in part: "The hour of metamorphosis, when people half hope, half fear that a dog will become a wolf." Coates dispels the idea that our behavior is driven predominantly by the choices we make. He shows with compelling scientific research that it is our body chemistry that significantly influences our brain and behavior. The laws of financial boom and bust, it turns out, have a great deal to do with male hormones.



■ MR. MAY is author of, most recently, *The Laws of Subtraction: 6 Simple Rules for Winning in the Age of Excess Everything*.



JEFF RUBIN:

This Time Is Different: Eight Centuries of Financial Folly, by Carmen Reinhart and Kenneth Rogoff, certainly puts the European debt crisis in a much-needed historical perspective. I found its implications for economic growth, the subject of my own book, quite compelling.

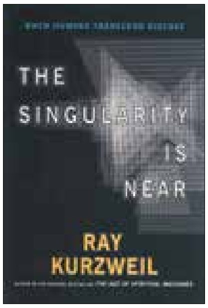
■ MR. RUBIN is author of *The Big Flatline: Oil and the No-Growth Economy*.

LIZ NICKLES:

The most impactful book I've read recently was not a business book but Bob Spitz's biography *Dearie: The Remarkable Life of Julia Child*. Spitz shows the path of a pioneering woman who forged the first multimedia food/lifestyle brand from the ground up, almost singlehandedly. Child broke ground from her impossibly adventurous deployment as a young woman in Southern California to Ceylon with the OSS, to her introduction of French food to the American home and creation of her own personal brand. She did this not with a big budget or a team or a PR agency, but with determination, innovation and—key in these times—resilience. She was working against the grain of what was acceptable, reached the peak, and sustained this literally until her death—and beyond—always reinventing herself to be relevant for the times, mentoring younger innovators, and ever eager to learn.

No matter what business you are in, *Dearie* is the tale of a master, with much to learn from. Jack Welch is a master, too, but he had GE behind him. Julia had Julia, and her husband, Paul Child. Makes you wonder: What if Julia Child had run GE?

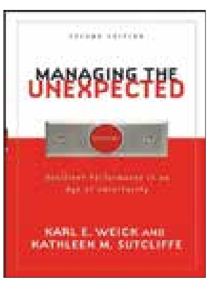
■ MS. NICKLES is founder and president of Black Label Financial Brand Development and author of *Brandstorm: Surviving and Thriving in the New Consumer-Led Marketplace*.



MARTIN MURPHY:

The best business–related book I've read (actually reread) in the past year is an old favorite, Ray Kurzweil's 2005 book *The Singularity Is Near: When Humans Transcend Biology*. While categorized as a scientific work, this book speaks from an epochal perspective and convincingly predicts that artificial intelligence will soon render human intelligence obsolete. Kurzweil presents a compelling case for this based, in part, on the exponential rate of technological advancement and concomitant societal, commercial, and geopolitical changes. Eight years after publication, a mind-boggling spectrum of technologically driven opportunities (and problems) have surfaced for leadership in the private, public, and not-for-profit sectors to consider. Exponential change, for example, renders traditional strategic planning obsolete because it is a static (scheduled) event. As a consequence, I now counsel clients to adopt an ongoing planning protocol, which elevates collaboration, innovation, and speed-to-market capabilities as strategic imperatives in a morphing, global market.

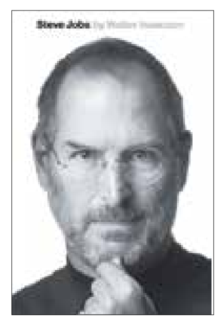
■ MR. MURPHY is founder and president of QuantumMeetings and author of *No More Pointless Meetings: Breakthrough Sessions That Will Revolutionize the Way You Work*.



NICK SARILLO:

To survive in business today, companies must be able to anticipate and adapt quickly to internal and external changes. In the fast-paced and complex restaurant business, this is especially true. I see my business as a high-reliability organization (HRO), and every guest is a life-or-death opportunity. That urgency is essential to business success and something I struggled to convey to the leaders in my organization until I read *Managing the Unexpected: Resilient Performance in an Age of Uncertainty*, by Karl Weick and Kathleen Sutcliffe. I now use the book in our leadership training, combining our values and purpose-focused culture with urgency, just as the example of the HROs do in the book.

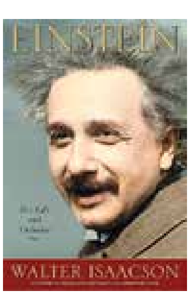
■ MR. SARILLO is owner of Nick's Pizza & Pub, the country's sixth-busiest independent pizza restaurant, and author of *A Slice of the Pie: How to Build a Big Little Business*.

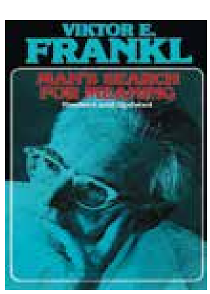


KATHY SIDELL:

This summer I read Walter Isaacson's *Steve Jobs*, which I was completely engrossed by (although it is a six hundred-page monster). Jobs' legendary entrepreneurship is the story of my generation. I had a front-row seat witnessing his unfettered, unapologetic genius and benefiting by how he transformed the way we communicate, look, and think about our world. He both modernized and revolutionized the way we approach marketing and branding, on a design and retail level. What better book to read? I was intrigued not only about Jobs as a maverick businessman but also by the story Isaacson tells about his complexity as a human being, which reveals much about a man who battled many moral demons.

■ MS. SIDELL is owner of the MET Restaurant Group and author of *When I MET Food: Living the American Restaurant Dream*.





JOEY REIMAN:

What if you had Albert Einstein on your board of directors? You can, more or less. *Einstein: His Life and Universe*, Walter Isaacson's stunning portrait, presents a tutorial on big-picture thinking. Every business would soar if it freed itself up from convention; free your mind by peering into his. According to Einstein, "Imagination is more important than knowledge." If that were the case, what would you do differently at work? Just about everything. This work proves that ideas are the currency of tomorrow.

Viktor Frankl's purpose in life is to help others find theirs. In *Man's Search for Meaning: An Introduction to Logotherapy*, the most underlined book in my library, I have found the greater meaning for business. Meaning is the product we must sell; money is the by-product. This 1946 book puts business on the couch, and we come away with insights and contributions that make us think differently about work, love, and the relationship between them.

■ MR. REIMAN is founder and CEO of the global consultancy BrightHouse and author of *The Story of Purpose: The Path to Creating a Brighter Brand, a Greater Company, and a Lasting Legacy*.

MICHAEL E. RAYNOR is a director with Deloitte Consulting LLP and author of *The Strategy Paradox* and, most recently, *The Innovator's Manifesto*. He can be reached at mraynor@deloitte.com.

PLAYING THE ODDS

In predicting outcomes, we can learn a lot from rats.

THE APPLICATION OF LOGIC TO DATA IN THE PURSUIT OF ANSWERS CAN BE VERY EFFECTIVE. Aristotle illustrated this in demonstrating how one would determine whether or not Socrates is mortal. We start with the observations that all men are mortal and that Socrates is a man. The application of deductive reasoning to those two premises yields the inescapable conclusion that Socrates is mortal.

If such deductive reasoning were all it ever took to reach a correct conclusion, there would be far fewer bad decisions. The problem is, far too often the facts are either ambiguous or incomplete in ways we cannot see until it is too late. When we apply reason to unwittingly incorrect or unknowingly underspecified premises, we end up with precise, convincing, and completely wrong conclusions. It's a distinction that logicians have long appreciated: A *valid* argument is one in which the conclusion follows from the premises; a *sound* argument is one that has the added benefit of being based on true premises.

Christopher Cerf and Victor Navasky's classic book *The Experts Speak* compiles mistaken predictions; while some are truly ridiculous, many more simply illustrate the distinction between valid and sound—and should inspire humility rather than provoke hilarity. For example, in 1962, a Decca recording executive had to make a call on a new four-member guitar group. Noting that similar-looking bands had been popular a few years ago but that most were failing miserably, he concluded that "guitar groups are on their way out" and that, therefore, the Beatles should seek their fortunes elsewhere.

We should be similarly sympathetic to the Western Union executive who turned down Bell's patent for the telephone, which he could have acquired for his employer for $100,000 (about $2.5 million today). While we don't know what his reasoning was, it might have been something like this:

Premise 1: To be successful, technologies must have customers.

Premise 2: There are no customers for the telephone.

Conclusion: If brought to market, the telephone would be unsuccessful.

It's easy enough to gin up a counter-argument today, but from the perspective of 1876, I can see his point.

Finally, consider the iPhone, a smash hit by any standard. When Apple launched it, in 2007, I assumed it would fail. Why would I think such a fool thing? Well, the iPhone was a sustaining innovation—that is, it seemed poised not to create a new market so much as perhaps incrementally improve the existing mobile-phone business. Disruption theory—still my preferred candidate for a means of predicting an innovation's success—states that entrants fail when they show up with sustaining innovations. Ergo, the iPhone will flop. Oops.

The problem is not, I think, that I'm an idiot. Rather, it is that we lack both perfectly accurate theories and complete and accurate data to feed into them. Consequently, people of good will and intelligence can look at the same data and reach opposite conclusions, because in many circumstances, we are forced to use something beyond mere data and logic to make our choices. But what?

Outcomes that are unpredictable and chaotic at one level are often predictable and stable at another. We don't know if or how much it will rain in Granada today, but we have a pretty good sense of the precipitation we can expect in Andalusia over the course of a year. This allows us to state expectations for any given instance in terms of probabilities, which serves to quantify our ignorance and so temper our hubris.

Careful research can also reveal what sorts of activities are systematically and strongly associated with the outcomes we desire. There is increasing evidence, for example, that strategic positions built on unique non-price dimensions of value are systematically more profitable than those based on low-price—perhaps as much as 80 percent of the time. Now, there are plenty of counterexamples of companies that compete on low price that do just fine, thank you very much, just as there are periods of drought or deluge along Spain's Mediterranean

"What's remarkable is that rats actually do much better than people: We try to figure out the pattern of colors and keep guessing some of each.

coast. But since we can't predict specific outcomes, the most reasonable response is simply to play the odds and prepare for what typically happens.

Going with the grain of the wood in these matters can be more difficult than you might think. In an experiment, when researchers showed rats two colors with relative frequency, say, 80 percent red and 20 percent green, but in random sequence, rats pretty quickly figured out that red appeared more frequently, so they picked red four out of five times.

What's remarkable is that rats actually do much better than people: We try to figure out the pattern of colors and keep guessing some of each. The best of us manage to infer the ratio of red to green and then match the frequency of our guesses of each color to the frequency with which each turns up. This results in a long-run success rate of, at best, 68 percent.

With this in mind, consider the travails that Abercrombie & Fitch has gone through. From its debut as a public company in 1996 through to 2007, it was terrifically successful, building a brand and customer experience that allowed it to command significant price premiums over its competitors and resist the sort of discounting that can erode margins and profitability. When the recession hit in 2008, A&F stuck to its guns and didn't discount while its competitors (American Eagle, Aeropostale, and others) did. This made it the object of some ridicule by analysts and commentators, who pointed to the company's falling revenue, store closures, and declining profitability.

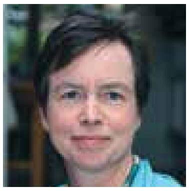
With the recovery, however, A&F might well get the last laugh. Unlike its industry peers, A&F does not face the daunting—and sometime insurmountable—challenge of curing its customers of an addiction to sales and clearances. Success is, of course, not guaranteed, and although I don't know how CEO Mike Jeffries and his management team reached their decision, I can say that what they chose to do was the odds-on favorite to work in the long run.

The point of the story is not that Jeffries and his team are smart and that analysts and leadership at other retailers are dumb. The data was sufficiently ambiguous that no matter how insightful, experienced, and expert one might be, the conclusion to be drawn was simply under-determined, as is likely to be the case with many choices of moment. However, from strategy to risk management to human resources, it is possible, through the careful evaluation of large-scale research, to get a pretty good probabilistic handle on an increasing number of important questions. The key to making the most of these insights is having the discipline to trust the numbers and not give in to our intuitions. If non-price positions are typically better than price-based positions, don't sometimes pick one and sometimes pick the other. Instead, however difficult it might seem, always go with what works most of the time.

Hold on, though. There are at least two reasons that a great deal of latitude for individual choice remains. First, when it comes to complex questions, our research is still rudimentary, often conflicting, and incomplete. Second, the particulars of how you play the odds matters in ways that we have yet to fully unpack. That still requires an ineffable mixture of intuition and judgment.

We have something to learn from rats when it comes to playing the odds, but I don't think they'll win the race just yet. ■

BY ALISON MAITLAND



ALISON MAITLAND is co-author of *Future Work* and *Why Women Mean Business*. A former longtime writer and editor for the *Financial Times*, she directs The Conference Board's Council for Diversity in Business and is a senior visiting fellow at Cass Business School, London. She can be reached via alisonmaitland.com.

THE PART-TIME EXECUTIVE

A growing number of top-level people are working less to accomplish more.

RANKINGS AND LEAGUE TABLES ARE A DIME A DOZEN IN CORPORATE LIFE. But one lineup of fifty senior executives recently published in the United Kingdom is different, for three reasons. First, they all do their jobs in fewer than five days a week. Second, they have had the courage to say so in a macho business world that still often thinks part-time is for wimps. Third, photos show almost all of them looking—dare I say it?—pretty happy with life.

As far as I know, "The Power Part Time 50" is the first list of its kind, the brainchild of Timewise Jobs, an online job board specializing in part-time roles for skilled and experienced people. The list demonstrates that a growing number of individuals and organizations are challenging old dictums and successfully reshaping how jobs are done, even at the CEO level. Notably, this isn't simply about flextime, whereby execs might still work a full week in and out of the office. Rather, part-time for these top execs really means that they are not running the show for a day or two each week.

As I read their stories, it struck me that business schools should be teaching aspiring executives how to lead people part-time. Sound counterintuitive? I think it would be a perfect way to learn how to inspire and motivate people in our increasingly mobile, virtual world. Perhaps more importantly, current managers should try working flexibly to see if they are as good at trusting and empowering their teams as they would like to think.

I suspect that defining people as full- or part-time will become outdated as more organizations move to rewarding for performance and results rather than for days and hours. But to get there, we need breakthroughs like this list, which features a lot of senior people talking openly about how they themselves are challenging the traditional work model.

Many of the executives on the list put a premium on clear communication and setting mutually agreed-upon goals and expectations for their teams, and then letting them get on with it. Since these leaders are working in extremely demanding roles, and given that they work two, three, or four days a week, they also must be very good at prioritizing and managing their own time.

Women vastly outnumber men on this list, which would suggest that the chief innovators of rethinking senior roles are female. B-school students could learn a thing or two from a CEO such as Katie Bickerstaffe, who is responsible for five hundred stores, twenty thousand people, and annual revenues of £3.8 billion as head of the United Kingdom and Ireland division of consumer electronics chain Dixons Retail. She packs her job into four long days, taking Fridays to unwind and spend time with her young family, while still keeping an eye on the business.

"I don't judge people by how often they are shackled to their desks but by their performance," Bickerstaffe told me. "It's about whether they have led their team well and delivered a great experience for our customers, not whether they came in on Friday and worked until 7 p.m."

Then there's Nicola Rabson, the first lawyer to make equity partner at international law firm Linklaters while working part-time. Rabson recently worked on the biggest employment claim in the United Kingdom to date; far from hiding the fact that she works flexibly, as many senior people still feel obliged to do, she has regular conversations about it with colleagues across the firm, hosts talks on the subject, and shares her experiences of part-time and flexible working with her clients.

Nadine Jones, group HR and project director for the Ryman retail group, works three days a week. She points out that "people describe me as Superwoman, and I think that is very funny." Jones makes efficient use of technology to keep in touch and says she invests time up front to understand and set expectations. "It's all about give and take. I am an optimistic coper; I don't stress about things outside of my control.

I focus on those things I can influence and get the best out ofthe people and teams I work with."

What also stands out for me is the respect and credibility these people seem to have with their peers and colleagues. Some are even comfortable enough to point out that working part-time has made them better at their jobs.

One of these is Mike Dean, who was recently promoted to lead service delivery for Accenture's business-process-outsourcing arm in the United Kingdom, Ireland, and Nordic countries. He decided to cut his weekly working schedule to 3.5 days after collapsing three years ago from an adrenal imbalance linked to overwork and stress. By "working smarter," he says he delivers more value than many people do during five days a week. "You have to be absolutely focused on the use of your time and make even more effective use of the people on your team," Dean explains. "Meeting invites are always for an hour. Why? I now say: If a meeting needs ten minutes, you'll get ten minutes. If it needs an hour, there had better be some preparatory work first so that I can read it before the meeting."

Dean puts the time saved from unnecessary meetings into understanding what the people on his team need in terms of support and flexibility. On the days when he is not around, he encourages them to take initiative, telling them: "A bad decision is better than no decision"—though if a matter is *really* urgent, they can call or text him.

He also spends time internally and externally talking about why and how jobs can be done differently. It is a crucial business issue, he argues, because the firm will not be able to attract and retain the talent it needs unless it offers people the balance they want.

"This was an aggressive, macho, bang-bang organization—and there are still pockets where managers think that everyone has to be in the office seven days a week," Dean says. "It's typically a few men who have these views. We have to change these attitudes. Someone will say to me: 'This role has to be five days a week, and it has to be London-based,' and I'll look at it and say, 'I don't think it needs to be done that way.'"

Finally, there is the matter of happiness. I cannot vouch for these executives' state of mind, but their smiling photos suggest that many have found the balance that so often eludes others in today's high-pressure business environment. These senior part-timers are no idle slouches on their days off. They are as ambitious in their personal lives as in their working lives. Many are active and involved parents or caregivers. Others volunteer in their local communities, sit on boards, or pursue academic studies.

It's refreshing to see them open up about what these other activities mean to them. For example, Lea Paterson is the head of the inflation report and bulletin division of the Bank of England and works between three-and-a-half and four days a week. She says getting home in time for her children's tea-and-bath time helps to keep her sane after the demands of the working day. "It's not healthy to get too obsessed with one part of your life, whether work or domestic," she explains.

"To be a good boss you need to be able to delegate, to recruit good staff, and to trust them to get on and do the work without checking on them every minute," Paterson continues. "When you're part-time, you're forced to do this anyway." In other words, the attributes that enable someone to lead successfully part-time are the attributes of a successful boss. ■

BY LAURIE RUETTIMANN

LAURIE RUETTIMANN is a top HR speaker and blogger; she is founder of Punk-RockHR and until recently was director of social media at The Starr Conspiracy.

THE MAIN SKILL YOUR HR CHIEF LACKS

Here's a hint: It's the most basic HR function.

MOST IDIOTS THINK THEY KNOW HOW TO RECRUIT. To an extent, they do. You might be the worst leader with the sketchiest track record at attracting and retaining talent, but you understand how it's supposed to go down: Develop a pool of candidates, screen for competencies and character, and extend an offer with optimism and conviction. And in about a year's time, when the fool you hired turns out to be incompetent, inconsistent, and/or inexcusably stupid, start the cycle all over again.

That's recruiting—the most important priority for your organization according to every overpriced human-capital consulting firm out there—and even if you personally get it wrong more than you get it right, you have an HR department that fills in the gaps and helps you get it done. And so, if people are our greatest assets—which is what we all say when we really mean that people are our most expensive assets beyond the really dazzling pieces of real estate our companies own in some of the world's most glamorous industrial parks—the person who leads your HR department must understand how to source, screen, hire, cultivate, and promote talent. Additionally, your CHRO should comprehend the implications of such activities on other aspects of your organization.

But instead of hiring an HR head who has experience with the real world of HR, which starts squarely in recruiting, you've made a different choice. In an attempt to de-feminize human resources by moving away from the old model of personnel—with its gossipy, water-cooler relationships and ugly cat sweaters—you hired a middle-aged Big Four veteran with a golf tan. (No offense to golfers or ugly cats.)

And what did he do? He hired consultants and advisers—based on relationships at previous companies—and orchestrated companywide planning sessions that probably got you nowhere. Your HR department still sucks, and it still has no seat at the table.

Now listen, I think it's fabulous when HR leaders have P&L experience. I love it when a senior VP of HR knows a little math and throws around concepts such as *big data* and *skills gaps* like they're the biggest things keeping him up at night. And it's cute to see senior-level executives from other departments swoop into sophisticated HR departments and act as if they have experience communicating, setting goals, and negotiating. But I have worked for a variety of HR chiefs, as both an employee and a consultant, for over seventeen years. I know something for certain: HR is not getting any better. And you probably know that, too. Too many companies are looking for the wrong skills in their HR leaders. If I were in your well-heeled shoes and in the market for a new HR leader, I would hire a recruiter to lead the department.

That's right. Good old-fashioned recruiting is exactly the kind of experience that every CHRO needs foremost to understand the stakes of doing HR wrong.

"Laurie, you're a fool," you might say. "I hired a former analyst to lead my HR agenda. He really understands the intersection of work, money, power, and politics." Or, "I hired a lawyer as my CHRO. She understands our exposure in the marketplace, and she's done a stint as an ops lady. This woman has the perfect mix of moxie and gravitas to accomplish our big, audacious goals."

Hmm. I wouldn't brag about that lady. While she might be awesome, the leader whom you hired has an average tenure of only thirty-three months, according to the authors of *The Chief HR Officer: Defining the New Role of Human Resource Leaders*. That doesn't seem very long for a person who is brought into your organization to be a strategic partner, a change agent, and a champion of better employment practices.

I'm not alone in believing that recruiting—not just business acumen—might be a (maybe *the*) key attribute in a great

> “ That’s right. **Good old-fashioned recruiting** is exactly the kind of experience that every CHRO needs foremost to understand the stakes of doing HR wrong.

and successful HR chief. Kris Dunn, CHRO of Kinetix, a recruitment-process/outsourcing firm in Atlanta, sees a connection between recruitment and successful HR leadership: “There’s no specialty, beyond recruiting, that will give HR pros more exposure to business. Recruiting, after all, is sales. You’ve got to market, sell, negotiate, bluff, and close. Understanding what a great candidate looks like and what a bad hire costs in the marketplace are keys to any HR leader’s growth.”

The problem is that a lot of HR executives want nothing to do with recruiting, which can seem administrative, rote, or even arcane. “If your CHRO feels that way,” Dunn suggests, “she may be in the wrong business. If you want your HR leader to have business chops, make the person recruit.”

China Gorman, the former COO of the Society of Human Resources Management and now the CEO of CMG Group, an HR consultancy, disagrees with this perspective and brings a nuanced approach to the applicability of recruiting experience in the role of a chief HR officer. She says, “If you take the functional expertise out of HR, the characteristics to be a leader aren’t all that different than those of other leaders. If you are a strategic leader, you demonstrate common traits: transparency, authenticity, and clear ownership of the decision-making process, and being able to translate what’s going on outside the organization into actionable strategies.”

Fair enough, but can you decipher the business landscape and translate the challenges of identifying, attracting, and retaining employees for your company if you’ve never been a recruiter?

“Sure you can,” responds Gorman. “Furthermore, CEOs who see HR as a strategic part of the business and not just a provider of services will hire a CHRO with specific business expertise who can earn the trust of the executive leadership team and create a relationship with the board. It’s imperative for CEOs to work with someone whom they can trust.”

Adds Dunn: “Saying HR leaders need better business chops in order to occupy the No. 1 HR spot sounds like general fodder for a political-campaign stump speech. And after a while, it starts to sound like background noise—all static with little action.”

Still, I do agree with Gorman that there is a big jump in responsibility between being a recruiter—or even a leader of a complex talent-acquisition team—and leading the HR organization of a dynamic company. But I think we could look internally to our recruiting team, rather than just to finance or ops, to find an HR head.

Ultimately, regardless of how someone arrives at the CHRO role, a leader must innovate, drive change, and add value in a way that shareholders and employees need and expect. I am with Dunn and countless other HR professionals who have done the work in the trenches. We believe that HR leaders who have actively recruited at some point in their careers will drive the future—certainly more so than a CHRO who massages the board and masters the talk of the Wall Street financiers. ■

SIGHTINGS

WHERE DO YOU WANT TO GO?

INDIA, THE WORLD'S LARGEST DEMOCRACY, IS TAKING AN UNUSUALLY ROCKY ROAD TOWARD BECOMING ONE OF THE LARGEST ECONOMIES, OVER NUMEROUS SPEED BUMPS. With political chaos hindering efforts to ameliorate staggering inequality and curb abuses of power, workers feel like ever-smaller cogs in an overheating machine. No surprise that many take to the streets—or, in the case of the taxi driver pictured above in Calcutta, stay off the streets—to demand higher pay, more rights, a stronger safety net, and more transparent financial practices. Frustrations boiled over last February when hundreds of thousands of workers from eleven unions banded together to disrupt life throughout the country in a massive strike.

But even big strikes, bringing city traffic to a halt, lack the impact they used to. In 2010, labor disputes cost the economy fewer than twenty million workdays—just a quarter as many as in 1982. India saw only 101 disputes during the first five months of 2012, less than half the number from the same period two years prior.

Why the drop in labor unrest? It's possible that, as in the United States, fewer unions with diminishing influence call fewer strikes. Ultimately, though, observers point out that the shift doesn't necessarily say much about India's workforce. After all, fully 94 percent of the nation's working population is unorganized, earning less and living more poorly than their unionized counterparts. Taxi drivers, it seems, have the luxury of striking. The same can't always be said of the millions of Indians who can scarcely afford to take a cab. —VADIM LIBERMAN