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A VICIOUS TORNADO. AN UPCOMING RACE. YET THE *ATLANTA*



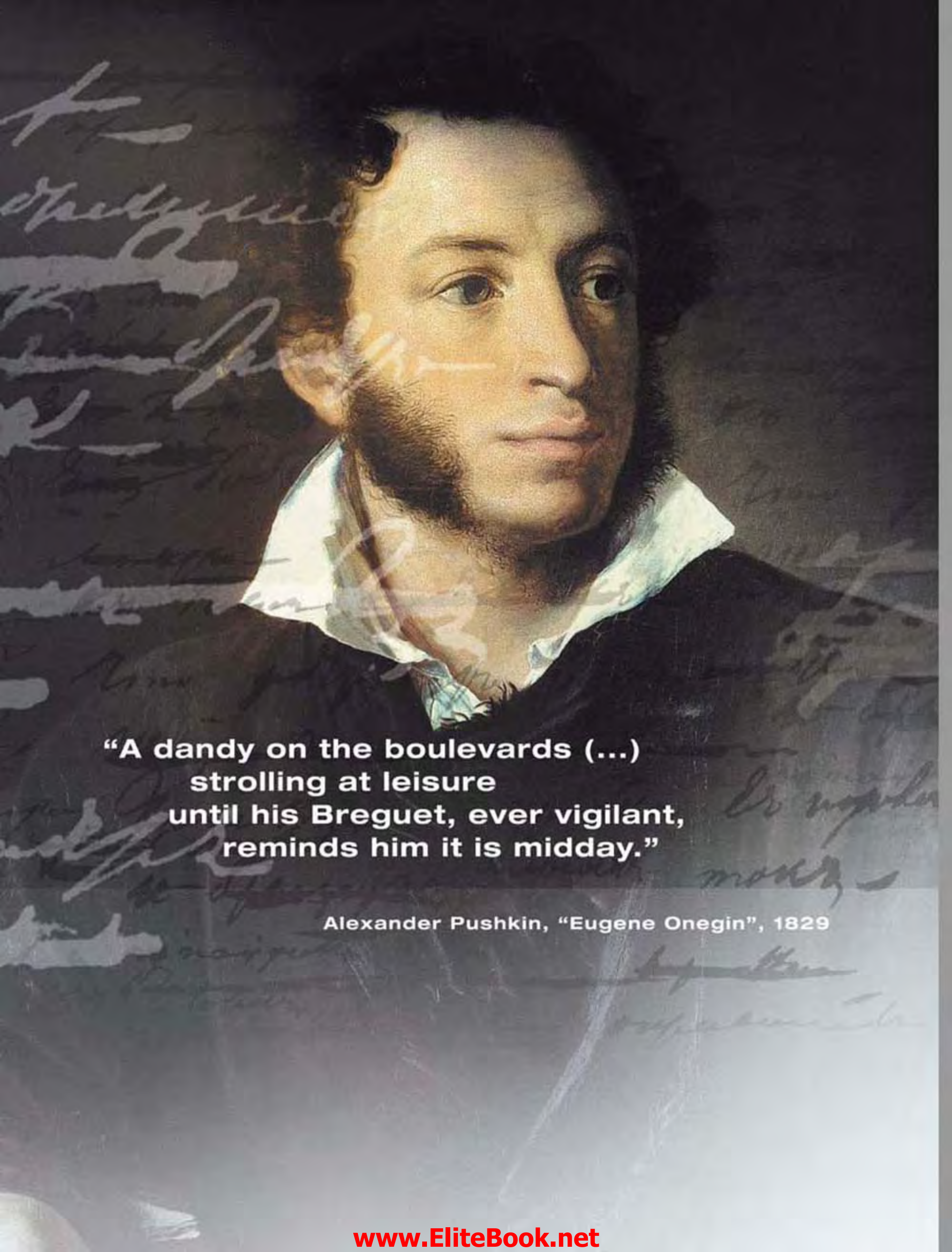
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A portrait of Eugene Onegin, a young man with dark, wavy hair and a light beard, looking slightly to the right. He is wearing a white shirt with a high collar and a dark jacket. The background is dark and textured, with faint, stylized script visible. The text is overlaid on the lower part of the image.

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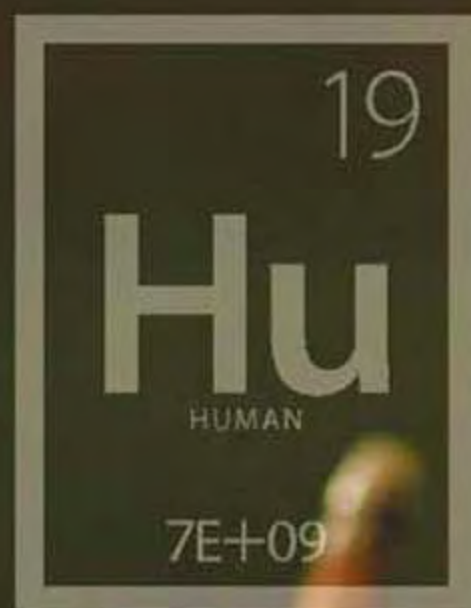
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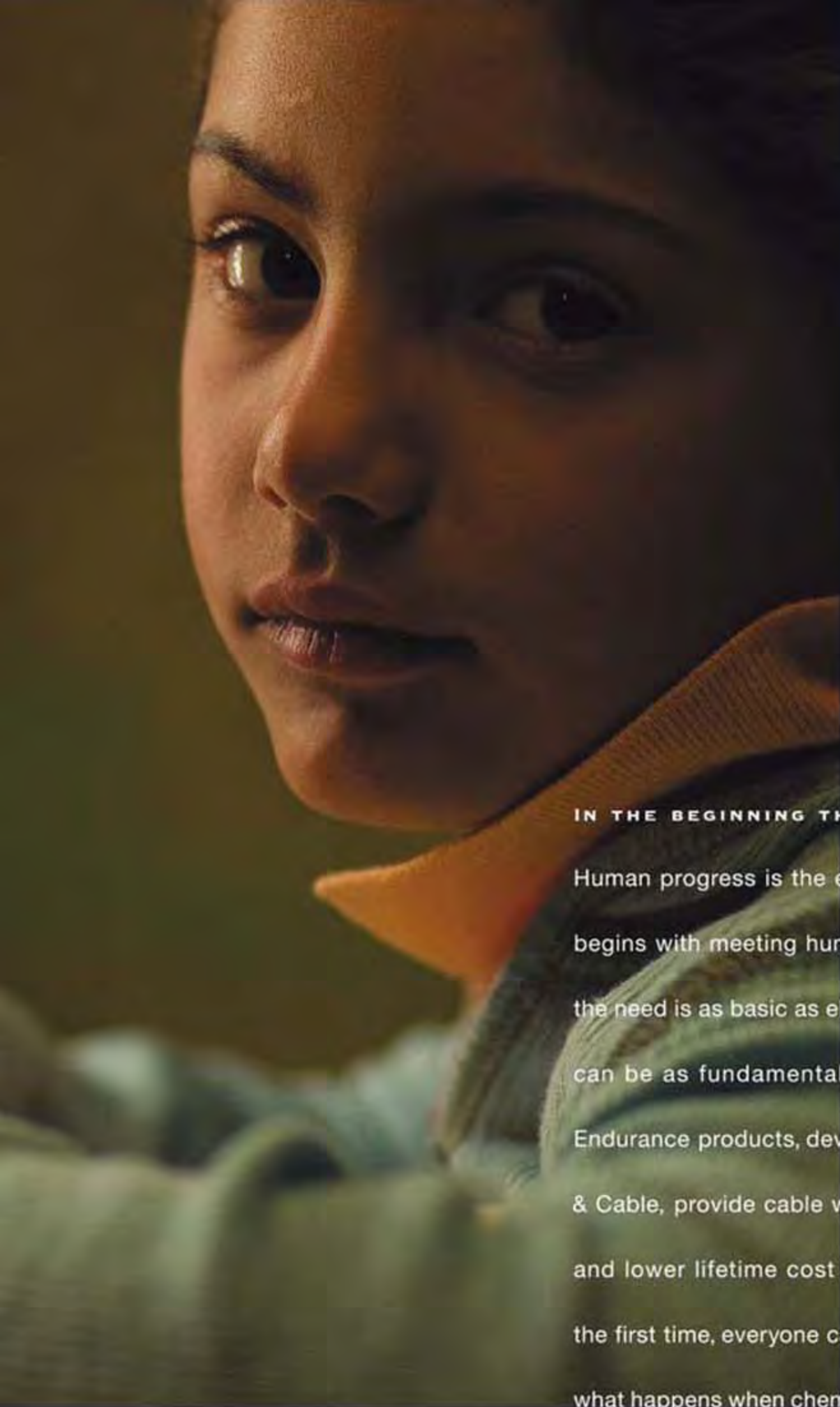
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Douglas A. Ready, Linda A. Hill, and Jay A. Conger

Even established global companies are encountering fierce competition for talent in developing economies, where the familiar concepts of brand, opportunity, purpose, and culture have new implications. It's vital to keep the promises you make.

72 THE HBR INTERVIEW Cisco Sees the Future

John Chambers

Interviewed by Bronwyn Fryer and Thomas A. Stewart

Every company claims to listen to its customers, but Cisco profits from them more than most. Here, Cisco's CEO explains exactly how he capitalizes on what they tell him.

80 Tomorrow's Global Giants? Not the Usual Suspects

Pankaj Ghemawat and Thomas Hout

Industry traits largely determine which global players come out on top – but that's a pattern smart companies can break.

90 Teaming Up to Crack Innovation and Enterprise Integration

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Companies are successfully using information technology to spur growth by focusing their IT organizations on innovation and enterprise-integration efforts. New research shows exactly how they're doing it and why it's working.

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Sunil Gupta and Carl F. Mela

Your nonpaying customers may be a lot more valuable than you think. A new model can quantify precisely how much profit they contribute – and show you how much to invest in them.

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When Your Colleague Is a Saboteur

Bronwyn Fryer

Mark Landstad, new to his firm's investment banking division, asks a veteran coworker who has been friendly to him for help locating a vitally important file. She denies knowing where it is – but then uses it to her great advantage. How should Mark deal with this backstabber? Commentary by Maggie Craddock, R. Dixon Thayer, and Deborah Kolb.

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Smart Power

A Conversation with Leadership Expert Joseph S. Nye, Jr.

The best leaders combine the tools of hard power and soft power into *smart power*. The next U.S. president must exercise smart power to create an agenda that looks beyond today's problems.

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How to Become an Authentic Speaker

Nick Morgan

Preparing for a presentation is important. But if you're not careful, your body language may undermine your words. Here's how to tap into and convey your authenticity.

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When Teams Can't Decide

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It makes good sense to avoid risk – but we tend to overdo it.



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A woman with blonde hair, wearing a blue jumpsuit with the Mercedes-Benz logo on the chest, stands in a factory setting. To her left is a silver Mercedes-Benz car on an assembly line. In the background, another worker in a yellow safety vest is visible, blurred by motion. The scene is brightly lit with industrial lights.

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> When Your Colleague Is a Saboteur

Weigh in with your solution to the dilemma in this fictional case study at colleague.hbr.org.



> Do Politics Shape Buyout Performance?

Should your firm buy companies in red states or blue? The interactive map at map.hbr.org can help you decide.



> From the Front Lines

HBR's senior editors provide discerning commentary on today's management issues and invite you to contribute your own insights. Go to editors.hbr.org.



Visit chambers.hbr.org to watch Cisco CEO John Chambers talk about the importance of teamwork and collaboration.



> An Inside Look

How can the ideas in this issue of HBR shape your business? The editors share their thoughts via podcast at editorspreview.hbr.org.

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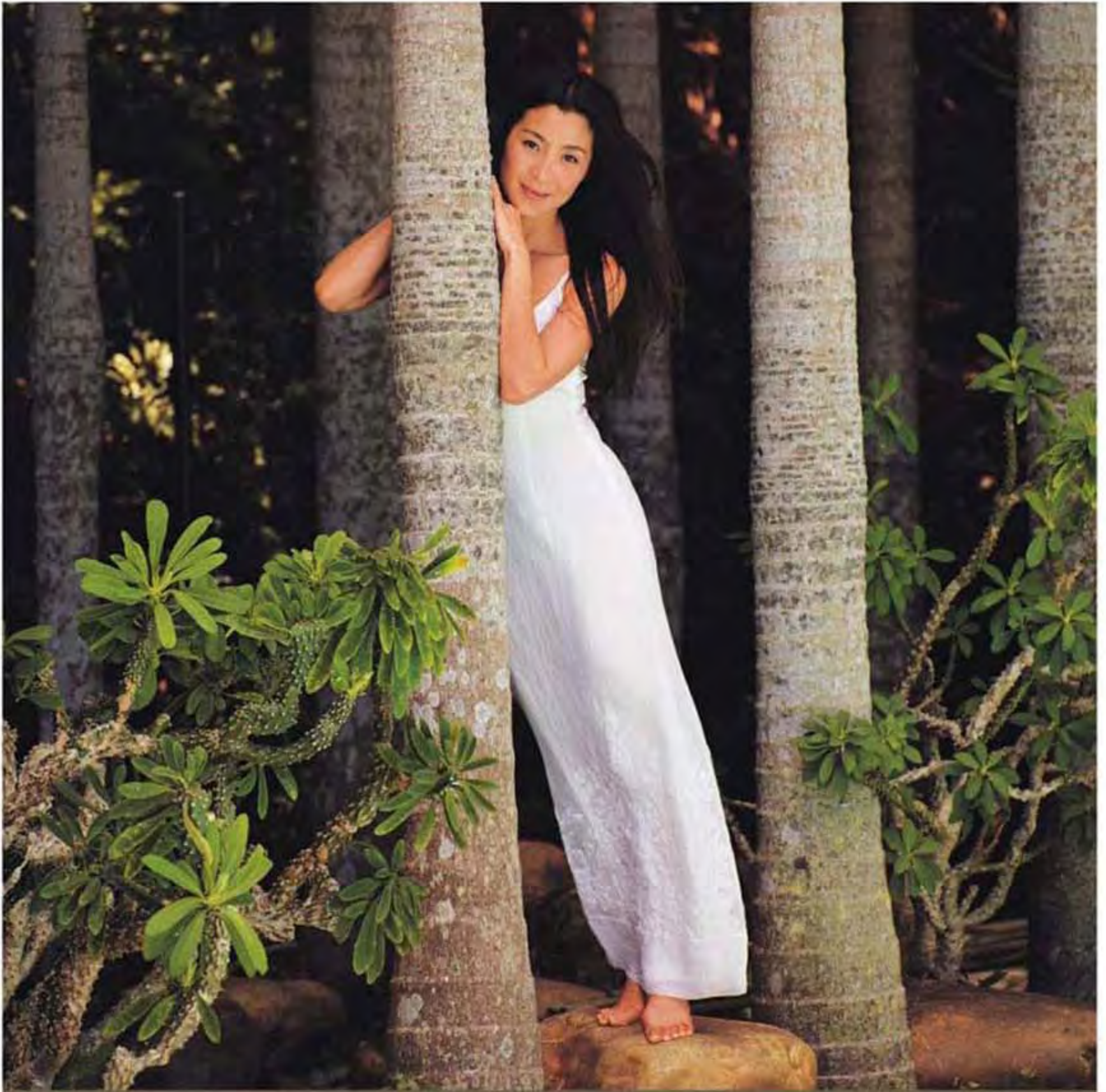
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See the Future First

EXCELLENT LEADERSHIP always has a surprise element. John Chambers, asked how he got Cisco Systems' senior executives to work together so well, gives a simple answer: He ordered them to. And when some of those people couldn't adapt, Chambers fired them. Clearly, there's more than a smidgen of command-and-control leadership at play here—but it's just as clear that his senior team makes strategic decisions collaboratively.

In an HBR interview with senior editor Bronwyn Fryer and former editor Tom Stewart, Chambers talks about how Cisco has been able to consistently anticipate economic changes well in advance of the market. The secret: If you know your customers and pay attention to what they're ordering, you can get a good sense of where the market is headed and invest accordingly.

It doesn't take a genius prognosticator to recognize that the competition for both talent and growth in developing markets is white-hot. In "Winning the Race for Talent in Emerging Markets," Doug Ready, Linda Hill, and Jay Conger assert that high-potential employees in BRIC and other developing economies aren't necessarily looking for the same rewards as their counterparts in the United States, Western Europe, and Japan. Of course they want to be paid well—but the competition will always be able to pay more. So successful employers depend on a sterling international reputation, an idealistic mission, and accelerated career opportunities.

The race for market share in fast-growing economies is just as intense. The conventional wisdom says that Western multinationals will dominate industries that are R&D intensive or brand dependent, whereas local companies will excel in industries in which logistics and production are the key competencies. However, according to Pankaj Ghemawat and Thomas Hout in "Tomorrow's Global Giants: Not the Usual Suspects?," there are ways to break out of that mold.

Two feature articles tackle managerial questions at a more operational level. Jim Cash, Michael Earl, and Bob Morison



observe in "Teaming Up to Crack Innovation and Enterprise Integration" that those two pressing tasks for growth-oriented companies could scarcely be undertaken without IT products and services. Although traditional IT is increasingly commoditized, there's still a crying need for highly skilled, IT-savvy teams to lead innovation and integration of the enterprise. Sunil Gupta and Carl Mela, in "What Is a Free Customer Worth?," consider how to value—and how much to spend on marketing to—customers who don't pay anything for your services, such as bidders at online auctions.

Our departments this month focus on interpersonal effectiveness. Speech coach Nick Morgan, in "How to Become an Authentic Speaker," points out how hard it is to project a natural, honest, flesh-and-blood persona when speaking to a crowd and describes a process for learning to do just that. Political scientist Joseph Nye talks with senior editor Diane Coutu about how the very best leaders learn to combine hard and soft power. The result? "Smart power." He offers the next U.S. president advice about using power effectively in this month's Different Voice. "When Teams Can't Decide" looks at the vexing question of senior teams that routinely defer to the CEO because they can't arrive at a decision as a group, but then resent him or her for acting like a dictator. Consultant Bob Frisch gives a convincing explanation for why this happens and provides a better way to design your decision-making process. And, finally, the HBR Case Study tells the story of a man who is undermined by a colleague; distinguished commentators advise him on how to handle this evergreen problem.

As we were closing this issue, we learned of the untimely death of longtime contributor Michael Hammer. He made an enormous contribution to the practice of management and to the success of this publication. We will miss him.

—The Editors



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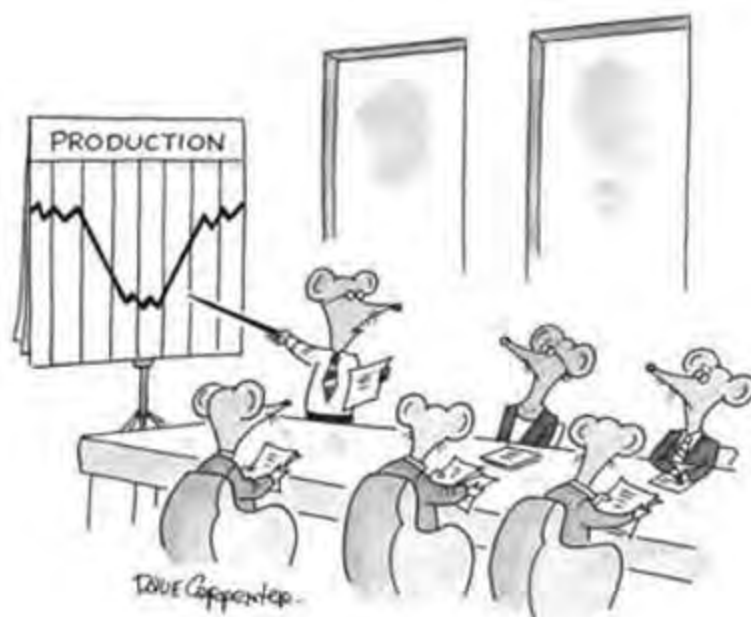
“Energy without focus dissipates into purposeless busyness or, in its most destructive form, a series of wasteful failures.”

Heike Bruch and Sumantra Ghoshal

“Beware the Busy Manager”

Harvard Business Review

February 2002



“And here the cat was away...”



“Well, then, when would be a good time to talk about your procrastination?”



“Oh, for crying out loud, Maurice, get to the point.”



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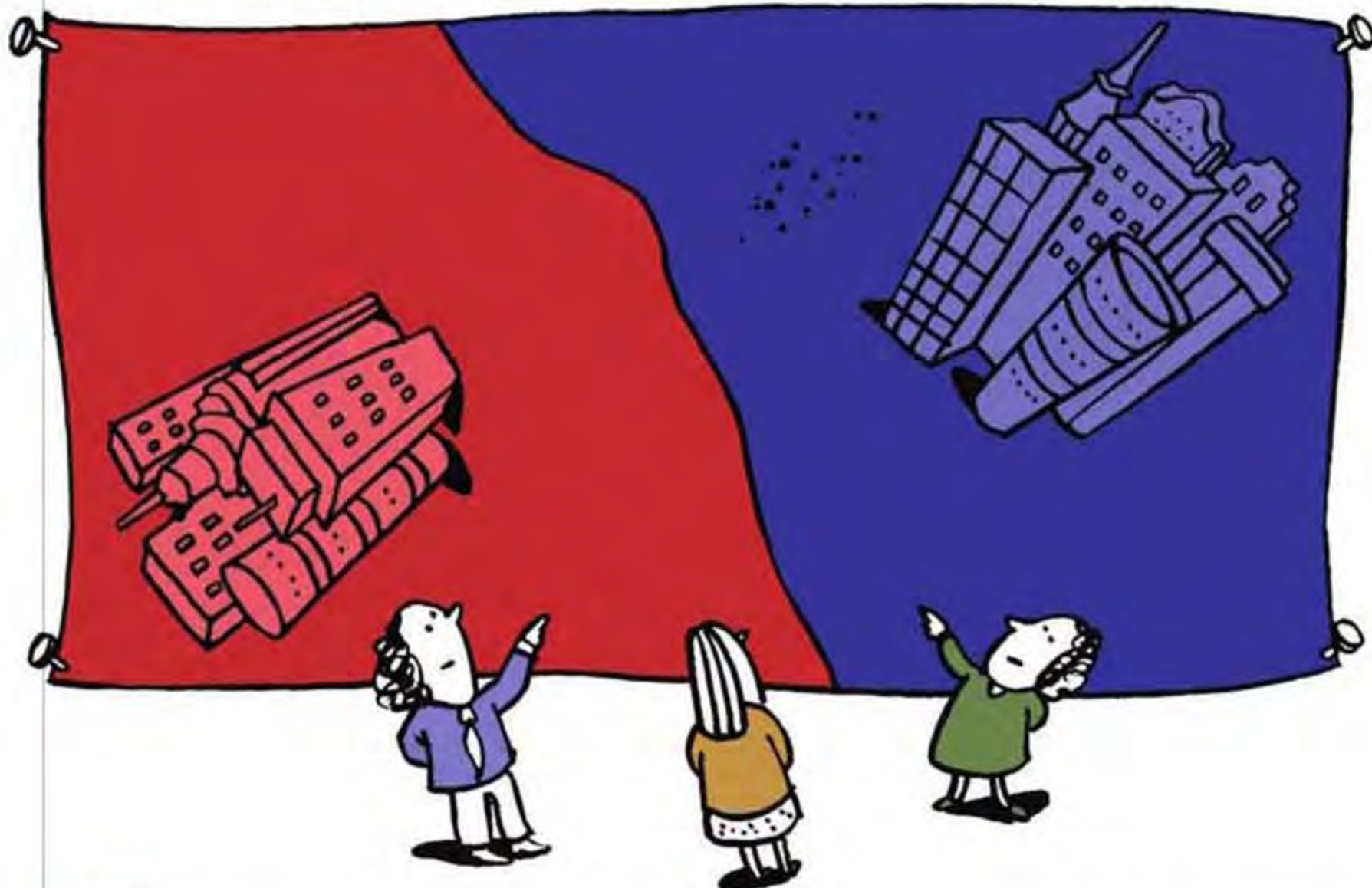


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GRIST

Do Politics Shape Buyout Performance?

by Oliver F. Gottschalg and Aviad A. Pe'er

Before your next U.S. acquisition, check how the company's home state votes. Our research shows that the performance of buyouts in "red" Republican states is likely to be above average, while buyout performance in "blue" Democratic states is likely to fall below the mean. (See map.) This finding held even after controlling for a dozen other factors that could explain performance differences, including the target firm's size, the historical performance of buyouts in its sector, and

the performance of the acquiring firm. We argue that Republican views are better aligned with buyout value-creation strategies (such as outsourcing labor, shutting down less efficient units, lower commitment to social responsibility, and deunionization) than Democratic views are.

This key conclusion of our study, which looked at 5,870 U.S. buyouts by private equity firms made between 1980 and 2003, points to serious inefficiencies in the market for corporate acquisitions.

In an efficient market, the average risk-adjusted rate of return on investments in identical target companies located in different states should be the same. Our research, however, found that the average return in red states was 3% above the mean (and as much as 17% above it in the best-performing red state – Oklahoma). The average return in blue states was 6% below the mean (and as much as 21% below it in the worst-performing state – Michigan). Yet most acquirers

Jose Karién

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To find out the average buyout performance of each state, click on the interactive map at map.hbr.org

and sellers don't seem to accurately consider local factors in the valuation methods they apply. The economic consequences of this oversight can be substantial: Using data on the returns from actual buyouts, we constructed two hypothetical funds—one that invested only in companies located in red states, and the other only in companies in blue states, and found that the first fund achieved a 9% higher annual net internal rate of return.

Private equity firms take advantage of this market imperfection, systematically focusing their investment activity on states that offer a higher risk-adjusted average performance. We found that a company headquartered in a red state was 27% more likely to undergo a buyout than an otherwise identical company based in a blue state.

There are, of course, a few exceptions to the "rule"—states where the pres-

ence of an industrial base that is exceptionally attractive (or unattractive) for buyouts overrides red or blue political

leanings. Deal makers need to pay close attention to local conditions and adjust their valuation metrics (such as the required hurdle rate or the valuation multiple) accordingly. Acquirers who develop such location-specific valuation skills will be able to generate higher returns than their counterparts who lack such skills. In this respect, private equity firms seem to be well ahead of the crowd.

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Reprint F0811A

GOVERNANCE

Time to Rethink Capitalism?

by Michael Yaziji

The leaders of publicly traded companies are beholden to the capital markets. Just consider the relentless pressure to meet the quarterly numbers. There once was a solid logic to this arrangement, but it no longer holds. The very logic that originally gave rise to free-market, competitive capitalism now supports free-market, competitive laborism—a system in which those who work for a firm reap most of the residual returns and have the greatest decision-making authority within it. This arrangement makes sense in terms of ethics and competitiveness.

Two hundred years ago, an individual investor might take the bulk of his assets and plunk it down in a factory. The factory would hire day laborers and pay them a day's wage. Who took the biggest risk in this enterprise and therefore ethically had a claim to any residual profits? The guy who put down the capital. And who had the biggest incentive to ensure the success of the factory? Capital. And who had the best information about the business and the greatest power to ensure the effective implementation of decisions about its operations? Capital. That's the logic of capitalism: Those who take the biggest risks should be the controlling owners and receive the residual profits for reasons of both ethics and competitiveness.

Times have changed. Today individual shareholders are so diversified that they rarely bear substantial risk in the individual firms in which they invest. If one of the countless businesses in which you invest through your pension plan or mutual funds loses 50% of its market cap, there is a good chance you won't know about it. (Do you even know the names of all the companies you invest in?)

Buyout Performance and Political Leaning by State

Private equity acquisitions made in red states are more likely to deliver above-average returns than those made in blue states.



Source: Analysis of 5,870 U.S. buyouts made from 1980 to 2003

But what if the firm you work for lost half its market cap? You'd be pretty anxious. In the company where you work, you've made large investments that you can't diversify away, such as learning the business, building relationships, and creating a reputation. Today the big risk taker is labor, not capital. The same logic of ethics and competitiveness that once supported shareholder value maximization now leads to the conclusion that firms should focus on maximizing returns for labor.

This isn't an argument for a wholesale shifting of profits from capital to the talent working for a firm. To stay in business, after all, firms need to give market rates of return to all those who provide critical inputs – labor, capital, customers, and so on. If a firm doesn't give a risk-adjusted rate of return to investors, it won't be able to attract and retain capital and will fail. Likewise, a firm must provide a market rate of return to labor, in the form of competitive employment contracts and working conditions. Finally, a firm must deliver an attractive value proposition to customers or it will not sell its products. But after all stakeholders providing critical input receive their market rates of return, laborism theory says that labor should get the bulk of the residuals.

If those with the greatest risk are most motivated to ensure that a firm remains competitive, then we expect that compa-

nies with a primarily laborist governance structure will tend to have an advantage. This thinking jibes with many executives' gut sense that strategic decisions driven by the short-term demands of the capital markets don't optimize long-term competitiveness. In fact, many highly successful legal and consulting firms are structured so that profits and decision-making authority are distributed to the partners, a subset of labor. Similarly, many leading German and Japanese companies are directed by boards that represent both labor and capital.

Interestingly, competitive laborism theory also aligns with the mainstream strategic thinking that says that only firms with unique and valuable resources or capabilities will gain and maintain competitive advantage. Capital is a fungible, nondifferentiating resource that rarely provides a competitive edge. Today it's labor's generation and use of knowledge that is the greatest source of advantage for most firms. It makes perfect sense that those contributing the most valuable resource – labor – should make the decisions and have the rights to residual returns.

Adam Smith would be pleased.

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Reprint F0811B

GLOBALIZATION

Finesse the Visa Crisis with a Worker-Mobility Plan

by Ian Macdonald

A shortage of visas for foreign professionals has created an atmosphere of crisis for large tech-based companies in the United States. But some companies have found ways around the problem and in the process reaped other important benefits, ranging from happier employees to improved corporate structure.

With the number of U.S. jobs in science, engineering, and computers growing rapidly and the domestic supply of qualified workers failing to keep pace, the demand for H-1B visas allowing foreign professionals into the country has soared. For the past five years, the congressionally mandated annual cap on the visas has been quickly met, closing out many individuals. Five business days after applications for 2008 were opened, some 163,000 people had applied for the 85,000 H-1B visas available, about 20,000 more applicants than for all of the previous year. Bill Gates told a congressional panel earlier this year that the U.S. "will find it far more difficult to maintain its competitive edge over the next 50 years if it excludes those who are able and willing to help us compete."

Multinationals, desperate to fill technical positions, have been seeking alternatives to the use of H-1Bs. A solution that's growing in popularity is intracompany transfer visas, which allow a firm to bring an unlimited number of foreign employees into the United States. But employees are eligible only after they have worked for the company for a year. So a multinational might, for example, assign a new hire to spend 12 months working in a country with looser immigration rules before bringing him or her to the United States.

The biggest companies have gone a step further by seeking alternatives to basing tech workers in the United States at all. They have found numerous advantages to creating teams of



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professionals who are based outside the United States and can easily be sent to countries where they're needed – for example, for local rollouts of high-tech products. In a trend that has gained momentum in the past 18 months or so, companies have been creating sophisticated “global mobility” programs aimed at creating truly international career paths for professionals. Having learned that hastily planned transfers often leave employees and their families feeling out of place culturally, these companies now carefully screen employees before any transfers, monitor their satisfaction and performance during foreign assignments, and debrief them afterward about what did and didn't go well.

The programs appear to be paying off: My firm's clients tell us that employees seem more satisfied with the experience, and the company benefits from workers' broader language and people skills and their greater knowledge of the company's operations.

For the many large companies that haven't yet developed global mobility programs, here are two points in favor of doing so:

They help recruitment and retention. Employees have come to see international mobility as a new way to distinguish themselves and as a positive career move, companies report.

Their start-up costs are not as high as one might think. Many executives assume that a mobility program requires the firm's full incorporation in foreign countries. Not so. A low-cost branch office may be all that's needed. And it's often more cost-effective to send a team of trained professionals into a new country for a short-term project than to train local employees, companies have discovered. There is a strategic benefit too: a faster, more flexible structure. When they are organized around projects, as opposed to locations, companies can enter new segments more quickly, reduce time to market, and enhance process standardization.

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The Best Advice I Ever Got

Maureen Chiquet
Global CEO, Chanel

Early in my career, I worked at the Gap as a merchant in women's denim. I worked with designers to choose styles for the stores, with planners to determine how much inventory to buy, and with a sourcing team to manage production. A year into this job, I came up with what I thought was a terrific style: a stovepipe jean, with a wider leg, in a great new wash. Both research and instinct told me the product could be huge. So when our CEO – Mickey Drexler, who now runs J. Crew – called one day from a conference room and asked if I could come present to him and the head of marketing, I felt ready and pretty proud.

The marketing chief loved the samples and immediately started talking excitedly about an approach to advertising. But Mickey was not so sure. “Why wouldn't we use that same wash,” he asked, “with Classic Fit jeans instead?”

Now, I was a very confident young merchant: I knew what was happening, what was cool, and what should and shouldn't be in the store. And instead of acquiescing, I began to argue my agenda, offering all kinds of reasons why that wash and style belonged together. Mickey kept asking questions, getting louder and progressively angrier. Finally I shut up and slunk back to my office, depressed, wondering if I'd lost my job for talking back to one of the most prominent retail executives in the country. A few minutes afterward, however, he called. “Maureen!” he bellowed, “I'm going to give you some important advice. You're a terrific merchant. But you've gotta learn to *listen!*”

Of course, Mickey was right about using the wash with the Classic Fit style, and we successfully launched those jeans. And 20 years later, his words continue to have a profound effect on how I think about my company's products and interact with its employees, customers, and other stakeholders. In retail – as well as in other industries – you've got to have a strong point of view and present it effectively. But to lead effectively and achieve real business results as the head of any enterprise, you have to listen. You've got to constantly ask questions and seek out diverse opinions, and remain humble enough to change your mind – whether about a product or a person.

Whenever I'm in a Chanel boutique, I ask the store employees what's selling, how consumers are responding, and what we should be doing differently. Their frontline observations help me refine my own thoughts about the business – and sometimes change my mind outright about a piece of merchandise or even a big strategy. Back in the office, I spend about 75% of my time listening to my direct reports' insights, and I make regular dates with our partners around the world to hear their perspectives, too. I'm always seeking information from as many varied sources as possible: I'll check YouTube, for example, just to see what people are watching. I keep my ears open and my eyes peeled for new trends in culture, the arts, film, theater, and the like.

Listening has its drawbacks because sometimes you realize that people are just telling you what they want you to hear. Yet, ultimately, what's good for this business – surrounding myself with talented teams and relying on their expertise – is good for me personally, too. If I hadn't taken Mickey's advice, put a piece of tape over my mouth, and really listened to people when I got to Chanel, I wouldn't have been successful for very long.

—Interviewed by Daisy Wademan Dowling
Reprint F0811D

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Low-Trust Teams Prefer Individualized Pay

by Kimberly Merriman

It's always a tough call – should managers base team members' pay on individual or collective performance? Recent research suggests that a fundamental factor is often overlooked in this decision: the degree of trust within the team.

Evidence suggests that members of low-trust teams should be paid according to individual effort. That's an important nugget for companies, because low-trust teams are proliferating in today's global business environment. Short-term, virtual, and cross-cultural teams have become the norm in many companies, but they don't easily allow members to go through the gradual process of gaining confidence in one another's competence, honesty, and dependability.

Many companies accept the conventional wisdom that team-based pay is the best way to encourage cooperation. According to the University of Southern California's Center for Effective Organizations, 85% of *Fortune* 1,000 companies used team- or group-based pay to some degree in 2005, up from 59% in 1990. But cooperation is often better fostered by teams' perception of fairness, which starts with an allocation of rewards that members consider equitable.

My colleagues and I studied 49 teams with four to seven members drawn from students at a U.S. business school, who collaborated on four-month projects. Team members who reported less trust of their colleagues' ability, honesty, and dependability had a greater preference for individual-based rewards (grades, in this case). And the less they trusted their colleagues, the more they cared about whether their preference was followed. This research dovetails with findings by Kristine Kuhn and Mark Yockey of Washington State University that people will even forgo potentially higher pay to avoid having their compensation tied to unproven team members.

Over the life spans of the teams in our study, trust increased and team members



began to care less strongly about whether their reward preference would actually be implemented. But their preference for individual rewards decreased only marginally, suggesting that teams must have a very high level of trust for members to truly embrace group-based pay.

One U.S.-based global company that supplies manufactured parts for other companies' products has found a useful approach to designing rewards for teams. It follows these guidelines:

Listen to employees. When converting three siloed departments to a dozen multifunctional teams focused on customer accounts, the company queried a cross section of employees and learned that they were very resistant to team-based compensation.

Identify specific roles. The firm established a system of differentiated compensation based on the specialized skills each member provides to a team. Because each person has a unique function, it's relatively easy for managers to identify individual contributions. Employees are evaluated on measures such as job knowledge and work quality.

Be consistent about evaluation. All members of a given team are evaluated

by one manager rather than an array of functional managers.

Unite teams through recognition.

The company encourages teamwork and cooperation by acknowledging individuals' contributions to their teams and explicitly tracking and communicating the teams' role in the company's success.

The company realized that many employees find it unfair to have a significant portion of pay tied to the performance of team members they don't fully trust, and that a sense of unfairness is counterproductive to teamwork. So it made no attempt to forcibly unite teams through collective compensation. Instead the company provided rewards that better met employees' and teams' needs. As a result, it avoided the pitfalls of low-trust teams reported by the organizations in another study I completed: team member demotivation and withdrawal.

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Conversation

X Prize CEO Peter H. Diamandis on jackpots for innovation



The practice of posting rewards for invention goes back centuries, but the California-based X Prize Foundation upped the ante in 1996, when it offered the biggest such reward in history – \$10 million – for the first successful private space flight. Today the foundation is developing prizes of up to \$30 million for solutions to outsized challenges in space exploration, life sciences, energy, the environment, education, and social entrepreneurship. We spoke with its chairman and CEO, Peter H. Diamandis, about what the model does best, and what's in it for companies that put up the cash.

Will the X Prize model work with challenges beyond personal space flight, especially if they're less sexy?

When you offer \$10 million for achieving an audacious, high visibility goal, it attracts teams and sponsors from around the world, and they're willing to take a lot of risk, sometimes spending more than the reward itself, because they're not just in it for the money. They're in it for the thrill of the chase, the fame if they win, and the benefits provided to humanity. I believe that the model will work for less sexy challenges too, especially if people think the problems are important and extremely difficult to solve. We're addressing those in areas like education, clean water, and poverty.

We know the X Prize model can be scaled up. What about down?

One concept we're exploring is called MyXPrize, a mechanism to help individuals create smaller prizes – between \$10,000 and \$1 million – for tackling local problems. Say you're concerned about pollution in a nearby lake. You could get together with friends and local companies, raise money for a prize, write a set of rules, and post it on our site. As word gets out, people and companies who care about the lake may add to the purse, and solving the problem becomes more and more attractive.

a program for taking kids from a second-grade reading level to a fourth-grade level in six months. I think it can be done. But it can't be done with incremental approaches. X Prizes inspire game-changing approaches. Look at SpaceShipOne, which won the prize for personal space flight. It's not a miniature space shuttle. It's a radically different solution to the problem.

X Prizes attract big-company sponsors.

What's in it for them?

Two things. The first is PR. The Ansari X Prize won by SpaceShipOne got 5.5 billion media impressions. Sponsoring an X Prize is an efficient way for a company to promote its brand by achieving an important breakthrough in line with that brand. When I was talking with Larry Page and Sergey Brin about sponsorship, they said they didn't want to just put the Google name on a stadium. They wanted something that would get people excited, inspire education, and generate new approaches to science. The Google Lunar X Prize for putting a robot craft on the moon will do that. Likewise for Progressive Insurance's prize for creating a new generation of cars that are manufacturable and get more than 100 miles per gallon or its energy equivalent. Progressive is going to get a lot of mileage when that first car rolls off the assembly line.

What's the other attraction?

It's the doing-good part. Think of the global challenges out there in health and education and the environment. If these prizes help find solutions, that's good in and of itself. Big prizes for innovation can affect where graduate students do their research, how the best minds approach problems, where companies direct their R&D dollars, the conversations that occur over dinner, and what kids believe is possible. We've had 1,200 requests from around

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Supervisor Work/Life Training Gets Results

by Ellen Ernst Kossek and Leslie B. Hammer

Teaching managers to be more supportive of their direct reports' work/life issues can be a simple and effective route to improving employee health and satisfaction, according to our multiyear study of hundreds of frontline workers and dozens of supervisors in middle-America supermarkets.

Supervisors are eager for such help: Many want to be supportive, but with companies cutting training budgets, they haven't been taught basic management skills. Worse, it's common for firms to reward supervisors for making their numbers, regardless of the human cost. That's a particularly shortsighted policy when it comes to low-wage workers, many of whom struggle with family and personal needs and may not see eye-to-eye with their managers on the primacy of work.

To increase supervisors' sensitivity to – and ability to handle – employees' work/life issues, we ran small sessions on how to plan coverage and deal with employees' scheduling conflicts. They consisted of onetime, self-paced 30-to-45-minute computer tutorials followed by 75-minute face-to-face discussions. The training focused on four kinds of actions: *providing emotional support* – that is, acknowledging employees' sometimes extensive responsibilities outside work; *providing structural support* by working with employees ahead of time to resolve scheduling conflicts; *modeling healthful behavior* by, for example, showing that it is acceptable to occasionally attend important family functions during work hours; and *partnering with other managers* to strategically address work/life issues through initiatives like interdepartmental cross-training, which increases coverage options.

Our study showed that prior to the training, employees who perceived their managers as unsupportive had significantly worse job attitudes, blood pressure, heart rates, sleep quality, and general overall health, and were less likely to be with the company a year later. After supervisors went through the training, workers' perceptions that their supervisors were supportive on work/life issues had improved significantly. This had important additional consequences

Employees of the trained supervisors also were more satisfied in their jobs than a control group of workers whose managers did not undergo training. The employees of the trained supervisors had a lower inclination to seek jobs elsewhere than the control group and reported a greater willingness to comply with safety programs.

To reinforce the training and ensure that it was implemented, we asked all trained supervisors to set individual goals

for using what they had learned (for example, increasing the number of times they asked employees about their families or scheduling needs). We also asked them to record their supportive behaviors on index cards for the next few weeks. After this stage of the training, a perceptual gap between managers and employees had closed: Before the training, one-third of employees had rated their managers as much less supportive than the managers rated themselves, but afterward, the ratings were in close agreement for most trained pairs.

Both the training and the follow-up initiatives were simple and inexpensive – but they paid off handsomely by improving employee motivation and decreasing the risk of costly health problems. The study provides proof that small interventions can have a big impact throughout an organization.

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of Me: Creating a Life in the Flexible Job Age (Wharton School Publishing, 2008).

Leslie B. Hammer (hammerl@pdx.edu) is a professor of psychology at Portland State University in Oregon and a coauthor of *Working Couples Caring for Children and Aging Parents* (LEA Press, 2007). Kossek and Hammer codirect the Center for Work-Family Stress, Safety, and Health in Portland. For more on their research, see <http://wfsupport.psy.pdx.edu> and <http://ellenkossek.lir.msu.edu/>. Reprint F0811G



in employee health, satisfaction, and safety.

Once they viewed their managers as being more supportive, employees reported improvements in general overall health as measured by such factors as pain and psychological problems. This effect was most pronounced among employees who previously had the highest levels of work/life conflict – for example, a frequent need to change their hours to accommodate children's schedules.

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Reviews

The Trophy Kids Grow Up

How the Millennial Generation Is Shaking Up the Workplace

Ron Alsop

(Jossey-Bass, 2008)

Take a generation of kids who have been showered with praise for the most modest accomplishments ("You brushed your teeth? Good job!") and an acute sense of entitlement ("Trophies for everyone!") and what do you get when they enter the workforce? An unquenchable thirst for praise and, you guessed it, an acute sense of entitlement. Twenty-somethings pester managers for constant (positive) feedback and have unreal expectations when it comes to career advancement. They disdain face time and expect managers to accommodate their

desire for work/life balance, well before they've paid any dues. And beware the scorned offspring: Some parents don't hesitate to call a manager to complain about junior's less-than-stellar performance review.

But like it or not, says Ron Alsop, author of *The Trophy Kids Grow Up*, these kids are our future. Boomers are heading into retirement, and we have jobs to fill. Alsop takes a microscope to the distinct attributes of what he calls the "millennials" (born between 1980 and 2001) and finds that the news isn't all bad – far from it. First, older millennials have remained close to their parents, and their affinity generally translates into good relationships with

other adults. Alsop quotes the chief recruiter at L'Oréal, François de Wazières: "I tell our managers the good news is that this generation won't hate you." More important, they're strikingly achievement oriented. They grew up in an era of standardized tests, and they want to score well. (The book applies most directly to the West, but talented young employees in developing countries share many of the same characteristics, despite growing up under dramatically different circumstances. See "Winning the Race for Talent in Emerging Markets," by Douglas A. Ready, Linda A. Hill, and Jay A. Conger, in this issue of HBR.) And while companies may need to teach some basic corporate manners – turn off that iPod in meetings and leave the ripped jeans at home – it turns out that the old guard can learn from millennials when it comes to technology savvy. They're also socially conscious and environmentally aware, and they put a premium on corporate responsibility. It's hard not to pin our hopes for planet Earth on what Alsop describes as possibly the "most generous generation."

Much of the book covers familiar ground. We've all seen articles about "helicopter parents" who hover over college applications and grading procedures. Speaker and consultant Tammy Erickson (an HBR author and blogger) has written extensively on generational conflicts and how executives can accommodate younger talent while maintaining their sanity. Her February 2008 HBR List item, "Task, Not Time," underscored this new generation's desire to be recognized for results and not forced into any preconceived notions of how, when, or where they do their work. None of Alsop's ideas for attracting and managing new employees is exactly rocket science: Establish an appealing online presence. Make your career website fun and informative. Be honest about work/life balance and community engagement. Nevertheless, it's sensible advice for anyone responsible for filling the talent pipeline.

– M. Ellen Peebles



The Brand Bubble: The Looming Crisis in Brand Value and How to Avoid It

John Gerzema and Ed Lebar

(Jossey-Bass, 2008)

With consumers taking quality for granted and treating more products as commodities, companies are having a tougher time making their brands stand out. But has branding gotten fundamentally less rewarding, or do marketers just need a new approach? Ad executives Gerzema and Lebar offer lots of evidence of brand weakness, but they also point to Virgin and other "buzz" marks to show that consumers still reward "energetic" brands. To get that energy, they say, managers can ramp up product innovation (P&G's Swiffer), instill a point of view (Vanguard's investor-centrism), and produce videos and games that consumers can share (Smirnoff's viral hip-hop party). The authors don't rigorously distinguish their approach from traditional advice, but the book is a wake-up call for marketers who think more branding per se will save them.

– John T. Landry

Future Imperfect: Technology and Freedom in an Uncertain World

David D. Friedman

(Cambridge University Press, 2008)

We want the world to be orderly, but too often it is simply a mess. Friedman, a law professor, gleefully sorts out a host of messes having to do with a wide range of world-changing technologies. For every manifest benefit (say, reducing crime through universal surveillance), there's a gnarly negative (adios, privacy). Friedman doesn't duck the big issues: the death of copyright protection; nanotechnology; cloning, genetic engineering, and other advanced reproductive therapies; cognitive enhancement through pharmacology; the growing difficulty (due in part to tools that allow users to veil their identities) of enforcing contracts in cyberspace.

Friedman is honest enough not to claim to be a seer – the future is both imperfect and uncertain. But he frames the possibilities evenhandedly, with energetic comprehensiveness.

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BY BRONWYN FRYER

COMMENTARY BY
MAGGIE CRADDOCK,
R. DIXON THAYER,
AND DEBORAH KOLB

When Your Colleague Is a Saboteur

"WHERE ON EARTH is it?" Mark Landstad wondered aloud. He scanned the sea of files in his predecessor's master folder on the company network one more time. "I know it must be here somewhere!"

Walking to the window, Mark gritted his teeth and scratched his face, which felt itchy and hot. He surveyed the crepuscular lights of London, as if the missing file might be hiding among them. Monday's presentation would be his first in front of CliffBank's senior management team. He'd only just moved from the firm's research department into its investment banking division, so making a good impression was critical. He'd been working on the slide deck all week, but he couldn't finish it without more up-to-date information – which he guessed was in the elusive file on Millhouse, the famous retail clothing chain CliffBank was trying to land as a client.

He needed a lifeline.

"Nicole," he whispered to himself. His new colleague and teammate on the Millhouse project might well know where to find the file, which supposedly included information about



the retailer's current acquisitions strategy. Unfortunately, she was 30,000 feet over China and wouldn't be reachable until Monday morning at the earliest.

Mark smiled as he recalled being immensely impressed with Nicole, especially when they first met. Gracious and bright-eyed, she'd been quick to welcome Mark into the division and help him acclimate. In her black St. John suit, with her smooth bob of blonde hair and shoulders thrown back, Nicole seemed astute, focused, on her game – every bit the competent executive. "Listen, any

questions, any time, feel free to pound screaming on my door," she'd offered. "I'm extremely busy, as we all are, but I want us to be a good team."

She'd taken him under her wing, introduced him to all the senior managers in the division, and invited him to a long lunch to bring him up to speed. Over drinks at a tapas bar, she had filled him in on the messy story of his predecessor,

HBR's cases, which are fictional, present common managerial dilemmas and offer concrete solutions from experts.

who'd gone haywire and been forcibly removed from the building. "It's a real shame about Patrick," she had told Mark. "He was a true master of M&A, and he knew the retail sector cold, but over the past year he became moodier and more disorganized. Then the paranoid e-mails. Quite frightening, really."

"Where is he now, do you think?" Mark had asked.

"Oh, no one seems to know," she'd replied, "but I do hope he's getting help."

Depressed now at the prospect of spending the weekend hunting for a madman's notes, Mark sank into his desk chair and loosened his tie. Down the hallway, he could hear the Friday-night cleaning staff's Hoover whirring near Nicole's office. He stared at the mesmerizing screen saver on his monitor. Another frenzied file search would yield nothing, he knew. The damned thing had probably been deleted.

What about Ian Beasley? The head of corporate strategy at Millhouse was, after all, a family friend. Without him, Mark wouldn't even be at CliffBank. Ten years earlier, on the strength of Ian's recommendation, Mark, with a fresh MBA in hand, had been hired as a researcher in Millhouse's finance department. The relationship with Ian had always been warm, and a successful stint at Millhouse had helped launch Mark's career as an equity researcher at CliffBank. Ian had even encouraged Mark to shift over to CliffBank's investment banking division. "Make the right moves, and you'll find yourself retiring early," Ian had advised him.

Mark nudged his mouse and broke the screen saver's spell. With great focus, he began typing an e-mail but then paused. Getting Ian to help him was probably not such a good idea after all. He might not relish taking time on a weekend to walk Mark through the details of Millhouse's acquisition strategy.

Mark minimized the e-mail window, clicked on his presentation, and contemplated the half-created slide. He'd

surely have to do some more fudging this weekend.

She's Got It Together

Mark leaned into Nicole's office and smiled. "How'd the trip go?" he asked.

"Great, thanks. I'm just a little tired. Awfully long flight."

You'd hardly know it, Mark thought.

"And you?" she asked politely. "How was your weekend?"

"Bit of a blur, actually. I spent forever working up some new slides. I looked high and low for that file you said Patrick kept on Millhouse – and ultimately couldn't find it. So I just cobbled something together."

"Oh, that's harsh," Nicole replied empathetically, pulling open a desk drawer.

"Don't you just love living with the consequences of someone else's nasty habits?"

She produced a box of Swiss chocolates and offered him one, which he accepted. "I know that file is somewhere," Nicole added. "Patrick never seemed to save anything in its proper place. The file's probably on the hard drive of a junked laptop. Don't you just love living with the consequences of someone else's nasty habits?" She took a sip of tea, winked at Mark, and peeked at her computer monitor.

"Listen, Nicole, I know you must be inundated, but would you mind looking over the slide deck as soon as you can? I sent it to you last night. I want to make sure it looks all right from your standpoint before we present it."

"Right away. Will do," she said, staring at the monitor. "Just give me a minute."

Mark ducked out and returned to his office to rehearse his portion of the presentation. He'd decided to focus on Millhouse's past acquisition patterns and

merger activities, and its growing interest in smaller retailers. Whatever his slides lacked in information about Millhouse's current strategy he'd make up for in keen firsthand observations about the firm's methodical, long-standing approach to due diligence.

By 11:30, Mark was on tenterhooks. The meeting was scheduled for just after lunch, and Nicole hadn't yet responded. He walked over to her office, but the glass door was shut. She was on the phone, her back to him. He decided to fight his anxiety with a quick walk to grab a sandwich. Surely she would have reviewed the slides by the time he returned.

When he did, neither Nicole nor her assistant was around. He consoled him-

self with the sight of the scrumptious wheat bread protecting his ham and cheese.

After nervously gobbling down lunch at his desk, Mark returned to Nicole's office, less than half an hour before the meeting, to find her leaning back in her chair, pursing her lips as she looked at her monitor. He forced a half smile to hide his annoyance.

"Looks great," Nicole said nonchalantly and clicked her mouse. "I think it will really make a good impression. All's well. See you in a few."

She Struts Her Stuff

As the senior managers streamed into the conference room, Paul O'Rourke, the head of the division, cast a kindly eye at Mark. Feeling a clutch of self-doubt, Mark grinned tightly.

"We've already done deals with six different companies in the retail sector," Nicole began after the lights dimmed. The slide listed several of Millhouse's

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smaller competitors in the clothing industry. "Of the remaining three that we're pursuing, Millhouse is the largest."

Nicole progressed slowly and deliberately through her portion of the slide set, and Mark felt his impatience growing. This is old news, he thought. Why milk it? He glanced around at the expectant faces.

"As you'll recall, we speculated last year about whether Millhouse was likely to make any additional ambitious acquisitions," she said. Then, her eyes brighter than ever, Nicole clicked to a slide Mark had never seen. It was

out giving him a heads-up? What kind of teammate was she?

"Good sleuthing, Nicole," he overheard Paul say in the hallway.

Mark gave the floor the glare that he wanted to direct at Nicole. He would have confronted her right then and there, but for Paul. He'd have to take this up with her later. Privately.

She Blows Right Past You

Half an hour later, Paul strode into Mark's office. "You know, Mark, I think we need more insight about what's going on politically at Millhouse. I wonder

league of yours – Nicole, um, Collins. She was rather insistent about meeting with me. Perhaps she should come along?"

Mark nearly regurgitated the ham he'd eaten for lunch. "Oh, really? Well, yes, I suppose I should try to coordinate with her –"

"I'll just have my assistant check the calendar and set that up, maybe for next week. Nice to hear your voice."

Mark hung up and marched down the hallway to Nicole's office. He entered without knocking and shut the door behind him.

"Nicole, I want you to know that Paul asked me to meet privately with Ian Beasley. He's *my* friend. What are you doing contacting him?"

Nicole looked up quickly from her desk. Her cheeks reddened. "There's no way you're going to meet with Ian if I'm not there!" She stood up confidently. "I've been working in this sector, and on Millhouse, for a long time. If you think you're going to take that away from me, you've got another think coming!"

Mark decided to be direct. "Ah, I see. So it's about grabbing most of the credit, is it?"

"Most of the credit? Ha!" She laughed as if mocking a schoolyard playmate. "I'm trying to grab *all* of the credit!"

Mark was visibly stunned. "Relax, Mark, you look stressed," she said breezily as she strode past. Tilting her head at him, she opened the door and walked out.

Mark stepped into the hallway and watched Nicole turn the corner. His mind was reeling. He clenched his fists, stuck them in his pockets, and stewed. He would have punched Nicole's office door, but for the glass.

Have You Had Enough?

Mark, temples throbbing, walked slowly toward Paul's office. He felt as if he were in a dream and had no idea what he would say. He had to say something though.

Paul was on the phone, but he waved Mark in.

"Most of the credit? I'm trying to grab all of the credit!"

an org chart. "I recently discovered that Millhouse is considering reorganization." Click. "This is what the new structure might look like."

Stunned, Mark looked around again. Several of the managers were leaning forward with curiosity.

Paul spoke first. "I see that the organization is considerably flatter than the previous one. It looks like they might be planning to outsource several of their operations."

Suddenly everyone was talking at once, like a gaggle of opinionated parliamentarians. Nicole hushed the room and began answering questions one by one, eating up the remainder of the hour. Mark knew he should interject, but his mind was in a whirl. This was exactly the kind of information that was supposed to be in the file he had been looking for. Why did Nicole have it, and why hadn't she shared it with him? At 2:00, Paul ended the meeting, declaring that they would reconvene later that week.

Mark fumed silently as the executives filed out of the room. Even if Nicole hadn't been hiding information from him, why had she inserted such an important fact into the presentation with-

if you could contact your friend Beasley over there. Maybe have lunch, find out what he's thinking. We want to look on our game when we make the pitch."

Mark didn't respond right away. He felt mildly uncomfortable about Paul's request. After all, he considered Ian a friend as much as a business contact. Still, Paul was the boss. "Certainly," Mark said.

"Maybe ring his office right now? The sooner you can talk with him, the better. Thanks, Mark."

Paul turned to leave as Mark picked up the phone to call Millhouse headquarters. Part of him hoped that Ian would be out of the office, but the assistant put him right through.

"Well hel-lo, Mark!" Ian sounded genuinely glad to hear from his old protégé. "All settled in?"

"I have a marvelous office with a view of Parliament and your building just beyond," Mark said lightly. "And I've got my first big assignment. It's to set up a lunch with you. I'm on the retail team, and we want to see if we can move forward on a deal with you guys. So, when can you fit me in?"

"Funny you should say that. Just last week I received an e-mail from a col-

"Got a minute?" he heard himself asking uneasily after Paul had hung up. This was definitely new territory for Mark.

"Sure," Paul said, with a trace of impatience. "What is it?"

"I need some perspective on working with Nicole." He thought he heard his own voice echoing.

"What's the problem?" Paul asked.

"May I shut the door?"

"We have an open-door policy here," Paul answered a bit defensively, "but if that would make you more comfortable, go ahead."

Mark took a deep breath as the glass door clicked shut. "I got in touch with Ian Beasley, who told me that Nicole has already contacted him to suggest a meeting. In fact, it sounds like she has been quite, um, aggressively trying to build a relationship with him since Patrick's departure, before I was hired. It's been my understanding that I was brought in here, in part, on the strength of my connections."

Mark went on to describe his surprise at Nicole's presentation, struggling between a desire to simply vent and embarrassment at having put himself in an awkward position. He felt like a little boy who had run to the headmaster to rat on a bully. "I must say, I'm a little concerned about her behavior. Maybe she's just having a bad day, but..."

"Would you like me to speak with her?" Paul interrupted, clearly irritated by the prospect of having to intercede.

"No, that won't be necessary," Mark replied, trying to sound reassuring. "I just wanted to make sure you knew what was happening. I can fight my own battles."

"I'm glad to hear it," Paul said, relieved. "I realize that Nicole is an ambitious young woman, but you'll learn to respect her results. I have."

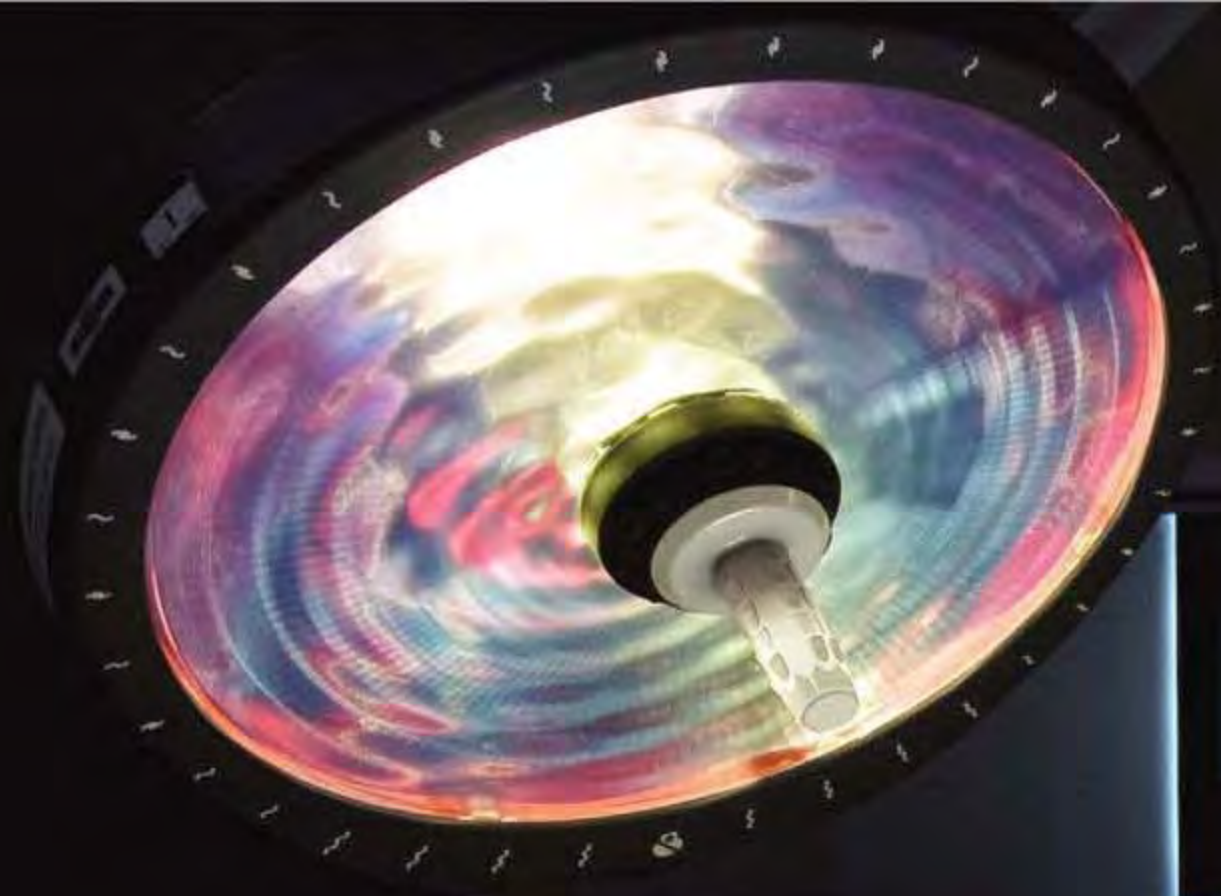


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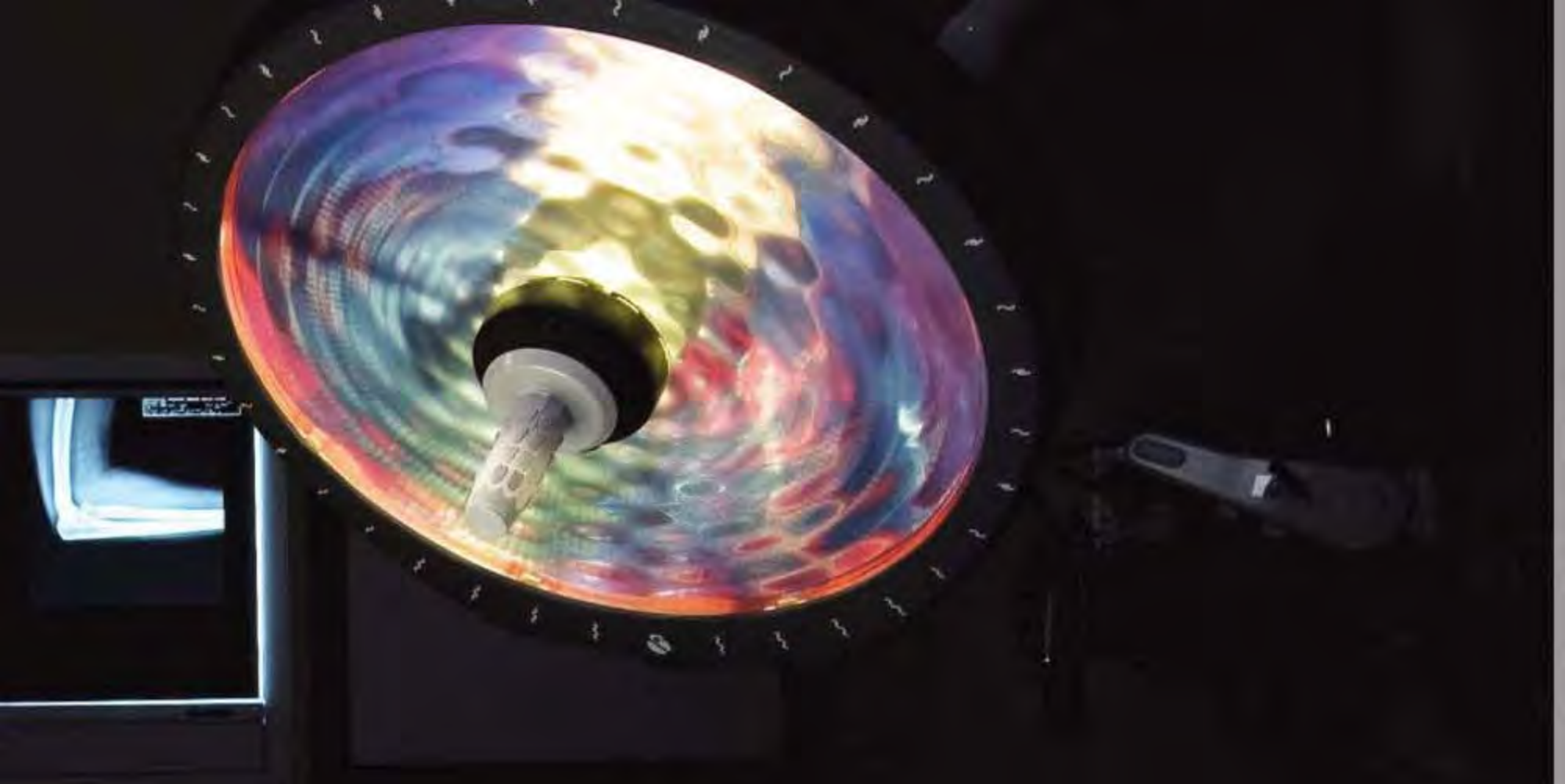


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Maggie Craddock (mc@workplacerelationships.com) is the president of *Workplace Relationships*, an executive coaching firm in New York, and is on the faculty of Wharton's Advance Management Program at the University of Pennsylvania in Philadelphia. Before building her coaching business, she won two Lipper Fund Awards for her work as a portfolio manager.

MARK MAY know a lot about finance and retail, but he's a novice when it comes to personal power.

Any organization operates as both a financial enterprise and a social system. And the system is not simply an organizational structure – interpersonal dynamics are the meat on the bones of that skeleton. My firm's research on such dynamics within organizations reveals that many people take and relinquish power according to patterns they internalized from their family systems. Often what makes or breaks a career isn't the thinking you do about workplace situations; it's how you react when you are too emotionally embroiled in the situations to think at all.

Most people acquire their dominant power styles from their experiences with authority figures in the family. To represent how these styles play out in an organization, my firm graphs an individual's level of seniority within the hierarchy against his or her tendency to get needs met by inspiring trust, fear, or some combination of the two. In comparing

team, to bring a fresh perspective. Like many anxious pleasers, he is so fearful of making a misstep that he fails to step up at all, allowing Nicole to have all the power. Mark cannot even be assertive in speaking to Ian, with whom he has a long-standing, positive professional relationship. He simply accedes to Ian's suggestion to invite Nicole to their meeting because his desire to please Ian gets in the way of the business at hand. He is like many anxious pleasers who spend lots of time wining and dining clients but still fail to close deals because they are more concerned with being liked than with achieving the commercial goal.

Nicole operates from an entirely different personality quadrant. She exhibits behavior typical of indirect commanders – using chaos as a control tactic. Conscious of her modus operandi or not, she tests the waters with Mark by not getting back to him before the meeting. Indirect commanders often try to rattle people in ways like that in order to disempower them.

Mark thinks he's being sabotaged, but in fact he's sabotaging himself.

the power people are formally assigned with how they use it, we have identified four main personality types: the anxious pleaser, the indirect commander, the direct commander, and the giver.

Mark is a classic anxious pleaser. He thinks he's being sabotaged, but in fact he's sabotaging himself. In the opening scene, Mark is his own worst enemy. He's wasting energy tearing his office apart to locate a predecessor's electronic document when he should be focused on making his own valuable contribution to an important upcoming meeting. If a missing file knocks him so far off his horse, how will he stay astride in a significant crisis?

During the big presentation, Mark fails to assert his capacity, as the new person on the

That approach certainly works on Mark, and he loses professional credibility in the process. When he heatedly rushes to Paul's office against his better judgment, he's like the little brother who runs to daddy to resolve a sibling dispute. Meanwhile, Paul, a direct commander, focuses so blindly on results that he ignores the human dynamics within his team.

To regain his footing, Mark needs to examine his internalized tendencies. He must figure out *why* he gets so rattled, in particular by Nicole. Frequently, the most important conversations we have in business are those we have with ourselves. If he works to make change on the inside, Mark will be better equipped to improve his performance on the job.

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WELCOME to the real world, Mark! I know just how you feel.

A colleague sabotaged me in the 1990s, when I was an executive in Europe with Scott Paper, reporting to Albert J. Dunlap (later dubbed "Chainsaw Al"). The saboteur was

cuss Nicole behind closed doors, risks looking like a backstabbing saboteur himself. He, like many people, delegates problems up, without appreciating just how much the boss has on his or her own plate or what the view is like from that position.

Instead of delegating problems up, put yourself in the boss's shoes.



R. Dixon Thayer (rdthayer@ab3resources.com) is the founder and CEO of *ab3 Resources*, a strategic consulting and investment firm based in Unionville, Pennsylvania, and an executive adviser to *Bryant Park Capital* in New York. He is also a former CEO of *I-trax*, a workplace-based health care company headquartered in Chadds Ford, Pennsylvania; it was recently acquired by Walgreens.

a coworker of mine who, by dint of seniority, had his pick of assignments. He chose to run a European division whose factories were already functioning well. That left me to support my division by restructuring other, problem-laden factories. We managed to turn the plants around, and my area began to make a sizable profit.

My colleague, who was used to the spotlight, disliked being outperformed. I remember a particular incident on the corporate jet during Dunlap's first visit to Europe. When I boarded, I saw my colleague skulk off to the rear of the plane before I took a seat next to the CEO. My colleague apparently had just complained that I had damaged the morale of his division by doing so well. So Dunlap lit into me, saying I'd "destroyed Europe." I remember him roaring, "We'll do you in right now, and they'll never find the bones!" (During a respite in the dressing-down, one of the pilots even slipped me a note asking whether I wanted a parachute.)

Instead of fighting back, I let my consistent results and teamwork on key global initiatives speak for me. Within about nine months, Dunlap no longer held misconceptions about me, and he eventually recruited me to help him with bigger opportunities. But I never did forgive that colleague.

Mark, in contrast, acts impulsively, instead of putting himself in his boss's shoes. He doesn't appreciate that Paul has had more experience with Nicole and considers her to be smart and assertive. Mark, the rookie, comes off as unsure of himself and, by asking to dis-

As a CEO, I post my four "rules for boss engagement" on my office door and on internal blog sites. The basic idea is that before you approach me, you should declare your purpose:

1. You're bringing me news that does not require action. Don't show up with bad news after 4:00 on a Friday, unless it's business critical.
2. You want a decision from me. Bring possible solutions to the problem – and your thoughtful recommendation.
3. You want personal advice and counsel from me (not as the boss, and without expecting action on my part – it's your job to solve the problem).
4. You want to complain about someone. Bring that person along with you, or we won't have a happy meeting.

I explain that I'm not trying to be arrogant or unresponsive. I care immensely about the people who work for me, but I have a company to run. If you want me to also do your job, don't expect to be too thrilled with the outcome.

Mark has already made an ill-considered move to approach his boss. Luckily, Paul has kept him on the Millhouse account. Mark can still make things right by procuring inside information from Ian, on his own, and ensuring that his is the last insightful voice Paul hears. He can show that he is above the sniping by then sharing the success of the Millhouse deal with Nicole and making her a future ally. In short, he can manage not just to regain his footing but to make himself a winner.



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MARK FACES the difficult choice of whether to stay in the investment banking division, with its promise of great rewards, while constantly having to watch his back with no apparent support from above.

At first glance, the facts seem to suggest that a return to equity research is best for Mark. He has been politically naive in failing to consider that Nicole's kind gestures might be a front for the threat she feels his appointment poses to her. Furthermore, Mark seems to have accepted the investment banking job without first bothering to learn the divisional culture and norms. Finally, his impetuous complaint to Paul – a hands-off, results-oriented manager who values independence in his people – can hardly make a good impression.

Yet, despite all that evidence in favor of retreat, Mark might not want to act too hastily because, with the right approach, he could negotiate a relationship with Nicole on the Millhouse project that would position him well. But first he needs to get answers to a few key questions. Is Nicole a saboteur to the core, or

some empathy by saying, "Listen, Nicole, I didn't understand the way people do things here, so let's back up and reassess. I was truly surprised at your display of anger. I want to understand how my being hired affected you. I want to work with you because I think I can learn from you, as you can from me."

If Mark finds Nicole is responsive to this kind of gesture, he should next negotiate with her their roles on the Millhouse project, openly acknowledging the value of both his long-standing relationship with Ian and Nicole's extensive experience at CliffBank. Only when they've agreed on appropriate roles should Mark, still asserting his place as the primary liaison to Millhouse, invite her to the meeting with Ian. After that meeting, assuming it goes well, Mark and Nicole need to negotiate again about how to proceed.


Of course, civil attempts at reconciliation and collaboration may reveal that Nicole really cannot be trusted. Nevertheless, Mark retains his access to and friendship with Ian. He can remind Ian that he is the point person at CliffBank and ask his old friend to respect

Is sabotage peculiar to Nicole, or is it emblematic of the broader culture in the division?

Is Mark's imminent threat to her star status driving situation-specific behavior? Is sabotage peculiar to Nicole, or is it emblematic of the broader culture in this division? Does Paul's emphasis on results truly signal his willingness to tolerate pursuit of those results by any means necessary? Depending on what Mark discovers, he may decide either to work with Nicole and foster that relationship or to take control and assert his influence with Ian in order to land the Millhouse account.

An attempt to collaborate with Nicole might begin with Mark's engaging her directly without being flippant or antagonistic. Over drinks after work, for example, he could try to show

and reinforce that. Regarding Nicole specifically, Mark might say, "Please don't talk to her. If she persists in trying to communicate with you, I'd appreciate your letting me know."

Whatever Mark ultimately decides, his is a cautionary tale. You must scope out the culture of a group you are joining in sufficient depth to understand what it takes to negotiate relationships there and to establish your position as a valued member. 

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Smart Power

Great leaders know when
hard power is not enough.

FIVE HUNDRED YEARS ago, Niccolò Machiavelli wrote that “a prince should make himself feared in such a way that if he does not gain love, he at any rate avoids hatred.” As the next administration in the United States prepares to face an increasingly multipolar political world—where challenges to world peace, the global economy, and the environment are enormous—that advice seems particularly relevant. Exercising the military and economic strengths of the United States will not by itself bring peace and prosperity. The president will have to make the ideas of democracy and free enterprise attractive, and present the country as an exemplar of them.

According to Joseph S. Nye, Jr., a professor at Harvard University’s John F. Kennedy School of Government, that will require a sophisticated understanding of how to combine American muscle with the tools of “soft power,” a term he coined in his 1990 book *Bound to Lead*. Formerly the assistant secretary of defense for International Security Affairs, the chair of the National Intelligence Council, and the deputy undersecretary of state for Security Assistance, Science, and Technology, Nye is the author of a dozen books, including the recently published *The Powers to Lead*. He believes that the biggest challenge facing the next administration is to present an agenda that looks beyond the military and political problems of today.

In this edited interview with HBR senior editor Diane Coutu, Nye describes soft power and distinguishes it from hard power. Great leaders, he says, know how to combine the two to exercise "smart power," through which they generate trust and mobilize people around forward-looking agendas. If the U.S. leadership can pull that off, this century will be one in which America still has a major role to play.

What are soft power and hard power, and how can you combine them?

In essence, power is nothing more than the ability to affect others to get what you want, and that requires a set of tools. Some of these are tools of coercion or payment, or hard power, and some are tools of attraction, or soft power. For individuals, charisma (emotional appeal), vision, and communication are key soft-power skills; for nations, soft power is embodied in their culture, values, and legitimate policies.

With the exception of the Dalai Lama and perhaps a few others, it's hard to think of anybody who has been able to lead using soft power alone. On the other hand, we often talk about hard power while forgetting that attraction is a very powerful tool. Ignoring it is a mistake. I think that there's an awakening to the need for soft power as people look at the crisis in the Middle East and begin to realize that hard power is not sufficient to resolve it. Of course, working out how to combine hard and soft power depends on understanding the context. A large part of what I call contextual intelligence comes from experience, but there's more to it. As Mark Twain put it, a cat that sits once on a hot stove will never sit on a hot stove again, but the cat won't sit on a cold stove, either. Using the tools of power wisely requires both experience and analysis.

Can a democracy really defeat terrorism with soft power?

Let me be clear: There are definitely times when you have to use hard power. Think back to the 1990s, when the Tali-

IDEA IN BRIEF

- As people realize that hard power alone can't solve complex problems, they are starting to understand the importance of soft power.
- The United States makes it particularly difficult for women to combine soft and hard power in public life.
- Business is ahead of politics in terms of understanding the need for soft power.
- The United States has a great deal of soft power embodied in its culture and its values.

ban government was providing refuge to Al Qaeda in Afghanistan and President Bill Clinton tried to solve that problem diplomatically. He was trying to persuade the Taliban, and the approach failed. The net result was that the United States didn't do enough to destroy the terrorist havens the Taliban had created for Al Qaeda. That's a case when soft power did not work and actually delayed the United States from acting as it probably should have – with more hard power. So soft power can be counterproductive if it prevents you from doing what needs to be done.

But if the way you use your hard power antagonizes the mainstream, you will find that the Osama bin Ladens of this world are able to recruit more people with their soft power than you are able to deter with your hard power. Today the United States is involved in a battle for the hearts and minds of mainstream Muslims. Americans have to use soft power to prevent them from being recruited by terrorists. That's why Iraq was a serious mistake. President Bush tried to produce democracy in Iraq through hard power alone, and the negative effect has set America back. Yes, coercion – hard power – is absolutely necessary for a democracy to defeat terrorism. But at times, attraction – soft power – is the more critical component. Soft power can draw young people toward something other than the terrorist

alternative. You can't do that through coercion.

You say soft power and hard power are both necessary. Yet you dedicate your latest book to your wife, Molly, "who leads with soft power."

I do prefer soft power to hard power. But you have to realize that soft power is not good per se; it has to be put to good purpose. The ability to attract others has been possessed by some evil people: Hitler, Stalin, Mao, bin Laden. Jim Jones, who started Peoples Temple, used manipulative soft power to get over 900 people to commit suicide by drinking poisoned Kool-Aid. His followers believed that he was a guru who had the ultimate word on their salvation. As I said, soft or hard, power is simply an instrument.

You can argue that soft power is slightly preferable to hard because it gives more freedom to the person who is its object. If I want to steal your money and I take out a gun and shoot you, that's hard power – you have no choice in the matter. If I try to convince you that I'm a guru and that you should give me your bank account number, presumably you could choose to resist me.

Teddy Roosevelt famously said that we must speak softly and carry a big stick. Was he talking about soft or hard power?

Roosevelt was the epitome of *smart* power: the combination of soft and hard power in the right mix in the appropriate context. The problems facing America and the world today are going to need lots of smart power, and leaders who want to understand it could do worse than to study Teddy Roosevelt. He was acutely alert to the use of hard power – look at his fondness for the military. But he was also aware of the importance of soft power. Roosevelt's chief motivation in negotiating crucial treaties such as the Portsmouth Treaty of 1905, which ended the war between Russia and Japan, was to make the United States more appealing. When he sent



the Great White Fleet, the new American navy, on a tour around the world, he wanted both to display the country's new military power and to advertise America as a force for good. In effect, he used a hard-power tool – the navy – as a soft-power symbol. This kind of exercise of smart power is why Teddy Roosevelt often ends up on lists of the best half dozen or so presidents in U.S. history.

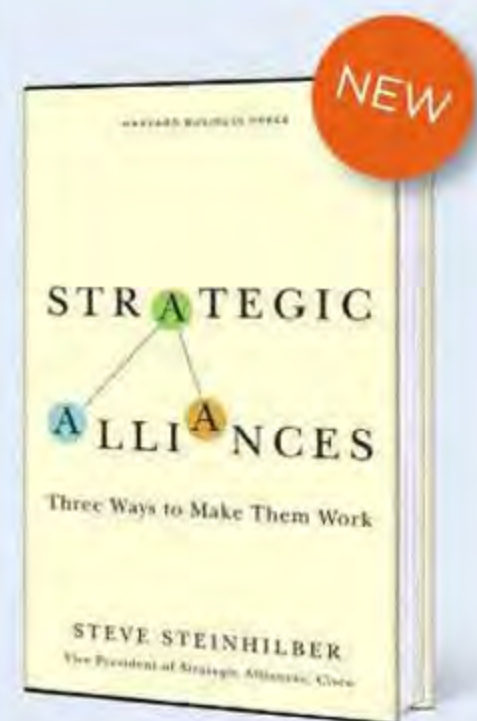
Do women encounter barriers when they try to use smart power in public life?

Definitely. It's much harder for a woman to exert smart power than it is for a man. If you think of classic women leaders – Margaret Thatcher, Indira Gandhi, and Golda Meir – they all came up fighting the gender stereotype and emphasizing the Iron Lady aspect of their leadership. Gro Harlem Brundtland, a former prime minister of Norway and later the head of the World Health Organization, was effective in her use of smart power. She could be tough in domestic affairs,

but she used soft power for Norway internationally. Mary Robinson, a former president of Ireland, and Vaira Vike-Freiberga, a former president of Latvia, also come to mind, but we haven't seen a female leader of a major country use smart power. Germany's chancellor, Angela Merkel, is a promising candidate, but she hasn't been in office long enough for us to judge.

The United States makes it particularly difficult for women to use smart power in public life, in part because of macho myths that dominate American culture and in part because of the climate of fear that followed September 11. Look at this year's Democratic presidential primaries. In terms of political leadership, gender is still a greater obstacle than race. There are lots of ways in which the stereotypes of African-Americans work against them, but an African-American male doesn't have to prove he's tough. Geraldine Ferraro said this during the campaign between Barack Obama and Hillary Clinton and was castigated for it, but

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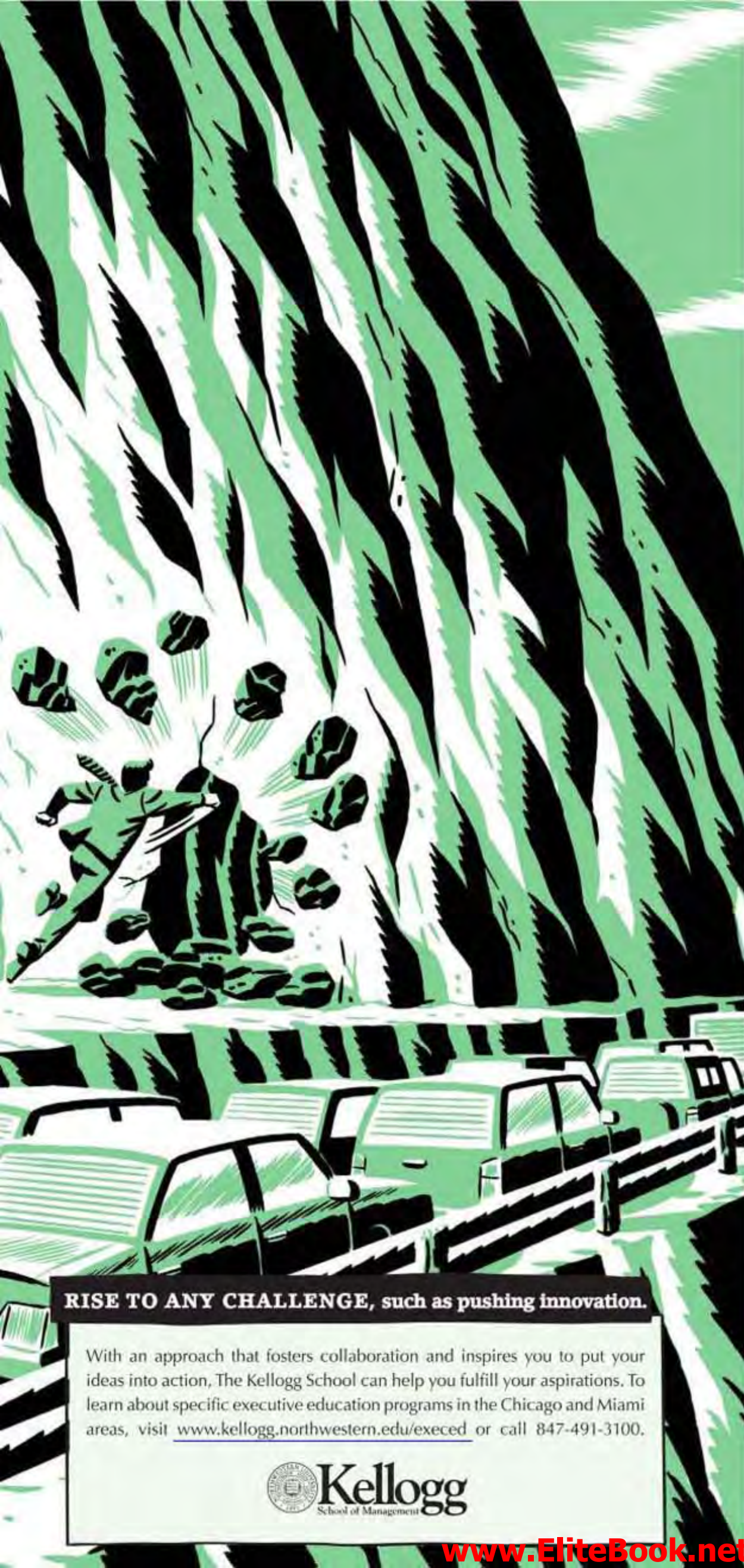
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basically she was right. A woman seeking public office still has to play against the gender stereotype that women are soft. So Hillary Clinton spent a good deal of her campaign proving that she was tough and experienced. That meant that Obama was able to be the candidate who could use soft power. He could appeal to people with a message of hope, a new beginning, a new future.

I think business is ahead of politics in this respect. If you look at the literature on management, you'll find a great emphasis on soft power – for example, on how managers can motivate and persuade people to deliver the results they need without resorting to carrots and sticks. The prevailing view in business is that networks are supplementing hierarchies and so organizations are becoming flatter. As a result, business leaders need to exert more soft power. You don't see that at all in the literature about politics. In fact, I was talking to a friend of mine, a congresswoman, and she said, "You're absolutely right about soft power as an analytical concept, but it's a losing term on the political horizon because no American wants to vote for somebody who is 'soft.'"

How did you learn about soft power?

I learned a lot about it when I joined the State Department, in 1977. I had no experience in government and no experience in management. I was a professor, and the only person I managed was my secretary – and some people thought that was the other way around. My first assignment was to lead an interagency committee to slow the spread of materials that could produce nuclear weapons. My inclination was to try to do things myself. I quickly learned that if I did that, I would drown. I needed others, but I couldn't give them orders because as a State Department officer I had no authority over people from departments like Defense and Energy. I had to attract people and make them want to help me.

Another important lesson I learned was that government is an oral culture. It produces reams and reams of paper,

but the crucial communications are oral, and they're often short. To some extent this is because of the amount of paper – you can't possibly keep up with all of it, so you have to fall back on the spoken word for the important things. When I was the dean of the Kennedy School, I tried to train students to give an elevator briefing – to say, in the time it takes an elevator to go from the first to the seventh floor, the two or three things your boss needs to know. Succinct, clear communication is one of the most effective tools of power.

What's your elevator pitch to the 44th president of the United States?


I think the first thing is for the new president to make sure he doesn't become hostage to George W. Bush's in-box. Of course, he's going to have to fix Afghanistan, Iraq, and Iran. But if that's all he

Do you believe that the United States is in decline as a world power?

No. People have been making that claim for decades. In the late 1980s, everybody thought the Americans were finished – the Cold War was over and the prevailing belief was that Japan had displaced the United States, driving it out of the world economy and so on. I thought this was wrong, and my book *Bound to Lead* was an effort to refute that claim. I started by looking at American military power and then at American economic power. I realized that I was missing something: the ability of Americans to attract others to their ideals and to their country. That's what I called soft power, and it's why I wrote then that the United States would be the dominant power of the twenty-first century.

I To set a new tone for U.S. foreign policy, the next president must not become hostage to Bush's in-box.

does, he misses the opportunity to set a new tone for U.S. foreign policy. If he's to exercise smart power, his mix of soft and hard must be more forward looking and offer more hope. He ought to close Guantanamo and set up a joint commission to look at how we should handle trials for suspected terrorists. He may want to appoint a bipartisan group to consider practical and immediate steps for dealing with climate change. He might also want to take a trip to Asia – starting in Tokyo and then going to Seoul, Beijing, and Delhi – to demonstrate that America is aware of and particularly focused on the rise of Asia, that it's not focused just on the problems of the Middle East. It's striking how many of the inherited problems are Middle Eastern ones. Of course, they'll continue to be tremendously pressing, but they shouldn't dominate the next presidential agenda.

I'm a long-term optimist about the United States. There's been a spate of books in the aftermath of the invasion of Iraq that have tried to revive decline. I don't believe it myself. The United States is a society that rewards creativity more than many other societies. I think it also has a great deal of soft power derived from its culture and its values, even though recent policies have undercut that. But policies can be changed. The American economy still has impressive capacity, and I think the American military is not about to be surpassed. This century will certainly see what Fareed Zakaria has called "the rise of the rest." We're beginning to see it now. But that's different from seeing the eclipse of the United States. 

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Winning the Race

for Talent in Emerging Markets

New research shows how to attract and retain the best employees in developing economies.

by Douglas A. Ready, Linda A. Hill, and Jay A. Conger

WITH ECONOMIC ACTIVITY in emerging markets growing at compounded rates of around 40% – as compared with 2% to 5% in the West and Japan – it's little wonder that many companies are pegging their prospects for growth to Brazil, Russia, India, and China (BRIC) and, increasingly, other developing nations. Businesses based all over the globe are feverishly competing for people who, often for the first time in their lives, have numerous options and high expectations. Not even companies with established global experience can coast on past success in meeting their staffing needs.

One might assume, for instance, that Standard Chartered Bank, whose heritage dates back to the 1850s in India, Hong Kong, and Singapore, could easily maintain a lead in the race for Asian talent. But just a couple of years ago SCB's China division was unable to find seasoned managers to lead the bank's retail and commercial banking operations. In the words of Hemant Mishr, the head of corporate global sales, "These people and the generations that preceded them have known nothing but poverty and the lack of opportunity. Yet we expect them to be patient, loyal soldiers, and to advance at an orderly pace. It is time to get real. It is their time now."

All three of us have spent decades studying talent management and leadership development, but this war for talent is like nothing we've ever seen before. We recently completed an eight-month research project that involved interviewing dozens of executives and collecting data from more than 20 global companies. Our goal was to identify the factors that differentiate the successful from the less so in emerging markets, and our first analysis revealed four: brand, opportunity, purpose, and culture. These may sound somewhat generic – and logical in any talent market – but they play out in developing nations in particular ways.

Employees in the developing world aren't used to thinking about the future in expansive terms. Now they can look beyond simply making a living. They are particularly attuned to *brand*, for instance, because a desirable affiliation may lead to personal advancement – especially when the brand is associated with inspirational leadership, the kind that challenges employees to develop themselves as leaders and to help build a great company that plays on a global stage.

Not surprisingly, *opportunity* means much the same in the developed and developing worlds: challenging work, stretch assignments, continual training and development, and competitive pay. In emerging markets, however, opportunity must imply an accelerated career track to senior positions. High-potential employees don't focus exclusively on climbing the ladder, however; they are

IDEA
IN BRIEF

- » Emerging markets are growing by compounded rates of as much as 40%, and finding talent to keep up with that growth is extraordinarily challenging.
- » Companies in the developed world often try to export the talent strategies they use at home – with abysmal results.
- » SCB, Lenovo, and others win over employees by promising – and delivering – accelerated careers, a chance to contribute meaningfully, and a meritocratic culture.

willing to make lateral moves as long as their skills and experience accrue at a pace that matches the growth in their markets.

As for *purpose*, emerging-market job candidates prize a company with a game-changing business model, where they can be part of redefining their nation and the world economy. They are also attracted by a mission that focuses on helping the unfortunate – many have experienced poverty firsthand – and expresses the value of global citizenship.

A company's *culture* matters in several distinct ways in emerging markets. First, its "story," or brand promise, has to feel authentic. Second, employees must be rewarded for reasons of merit; a high potential from Brazil or Dubai must believe that the executive suite

in China or the United Kingdom is within reach. Third, although employees want to be recognized for individual achievements, they also want to feel a connection with their teams. Finally, the culture has to be truly "talent-centric," so that people know they're critical to the company's success.

A closer look at our interviews gave us new insights into how these four factors work in concert. We found that they could be united under two guiding principles: *promises made*

A Framework for Attracting and Retaining Talent



(the combination of brand, opportunity, and purpose) and *promises kept* (most significantly, employees' day-to-day experiences within an organization's culture). All four factors play a role in all aspects of the talent management process, but each influences recruitment and retention in different ways. (See the exhibit "A Framework for Attracting and Retaining Talent.") Promises made and kept affect any quest for talent, but the intensity of competition in the fast-growing BRIC and other economies makes strong differentiation urgent. Most companies continue to believe that a big salary and a name brand will suffice to meet their needs, but a local company that creates genuine opportunities and exhibits desirable cultural conditions will often win out over a Western multinational that offers higher pay.

We're not proposing a simple solution to a complex problem. Company needs vary by market (see the exhibit "The Talent Market in BRIC"). Prospective employees don't necessarily value the same things: Among certain demographic groups opportunity may matter more than purpose, for instance, and individual preferences vary widely as well. But regardless of any company's strategy for a given market, the same overarching principles apply.

Attracting Talent: Promises Made

Lenovo is a good illustration of the strong lure of brand, opportunity, and purpose. Its acquisition of IBM's personal computer operations, in 2005, made it the third-largest personal computer company in the world. In 1994 the founder of Legend (as Lenovo was then known), Liu Chuanzhi, forecast that it would be a great company – an astonishing leap of faith in the early 1990s. "At the time, there were very few great Chinese companies, so Chuanzhi's vision stood out," Chen Shaopeng, president of Lenovo Greater China and senior vice president of Lenovo Group, told us. "In China, the biggest draw is Lenovo's ambition and vision." The IBM acquisition produced something of a halo effect for Lenovo, and Chinese

To find and keep employees in China, Brazil, and other developing nations, recruiters have to offer a whole lot more than a fat paycheck and a standard career path. These young managers have a tremendous sense of opportunity – in many cases, for the first time in their lives. Companies that succeed at recruitment and retention in emerging markets focus on four key distinctions: brand, purpose, opportunity, and culture.

Factor	What Matters	EXAMPLE
Brand	A reputation for excellence; a ticket to future success; inspirational leadership	TCS Iberoamerica, which provides software and technology services in Latin America, Spain, and Portugal, stands for technical excellence. When expanding into Brazil and Uruguay, the company first hired engineers – not salespeople – and sent them to India to observe TCS's core strengths and standards firsthand. They returned energized and eager to recruit their compatriots.
Purpose	Opportunity to be part of a game-changing business model; a chance to participate in cultural transformation	The acquisition of IBM's personal computer operations helped Lenovo become a leader in the global PC market. Its founder's vision, to be a "great company," attracted employees who wanted not a job but a career – at a time when China had very few "great" companies. And workers felt pride that their country had bought part of an American icon.
Opportunity	Accelerated career path from day one; seemingly unlimited prospects for growth	Lenovo has methodically developed career maps and talent pipelines for everyone in its pool of high potentials, including the CEO. Career maps link directly to key slots across the globe; accountability for the entire process rests with line leadership, not with HR.
Culture	Meritocracy and transparency; follow-through on promises	The CEO of HCL Technologies, a global IT company headquartered in India, posted his own 360-degree feedback on the company intranet; 2,000 managers now publicly post theirs. The intranet also invites employees to approach the CEO with any question at all; he personally answers as many as 100 inquiries a week.

workers felt pride that China had been able to buy part of an American business icon. Lenovo's brand was and is attractive to ambitious young workers with dreams of their own – people who are building careers and not simply looking for jobs. Lenovo was an early standout for these rising stars.

Lenovo also built a global perspective into its brand promise; to become a great company it would have to expand beyond its home market. That meant opportunity. President and CEO Bill Amelio describes his company as a “stage without a ceiling for every employee” – worldwide. In a truly global spirit, Lenovo’s top-team meetings rotate among Beijing, Hong Kong, Singapore, Paris, and Raleigh, North Carolina. “Instead of having everyone travel to me, I travel to them,” Amelio says. Lenovo’s brand promise credibly communicates that nationality doesn’t matter; if an employee demonstrates capability and vision, there are no limits. The playing field is level.

TCS Iberoamerica, a \$160 million unit of Tata Consultancy Services (itself a division of the \$28.5 billion Tata Group), provides software and technology services to clients in Latin America, Spain, and Portugal, while also contributing to other TCS endeavors worldwide. It’s easy to understand why an Indian would want to work for Tata Group in India. But what motivates a Uruguayan software engineer to work for an Indian company in Brazil? The combination of a strong brand and opportunity. TCS Iberoamerica’s president, Gabriel Rozman, told us, “When people in our region read about Tata

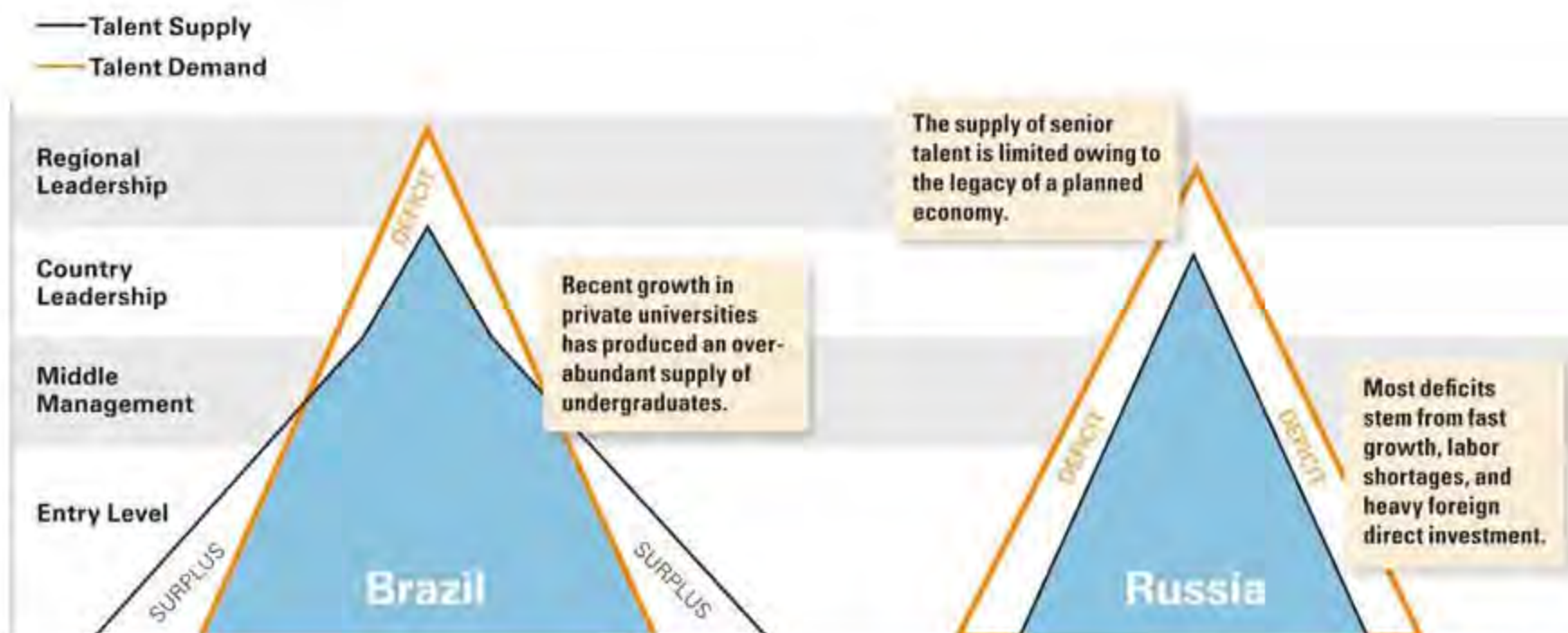
buying Jaguar or making a \$2,000 car that will change the industry...they get excited.”

The Tata brand stands for technical excellence, so when expanding into Brazil and Uruguay, Rozman started by hiring engineers – not salespeople – and sent them to India to observe firsthand the company’s core strengths and standards. They returned energized and eager to recruit their compatriots. One Uruguayan engineer saw working at Tata as an opportunity to help his country make its mark; he said, “I wanted to work at TCS because I wanted to show the world what Uruguay was all about. Even though we’re a tiny country, we have value to add.” Rozman also emphasized the appeal of having local Brazilian and Uruguayan leaders who are well connected and admired in the community heading up operations, rather than expatriates.

Many other managers spoke of the pride they felt in working for companies with strong brands that were also contributing to their countries’ economic development. Novartis’s sense of purpose, for instance, is a major draw for talent. Its Project Arogya, one of Novartis’s socially conscious business operations, provides services to some 10 million villagers in 24 ter-

The Talent Market in BRIC

ALTHOUGH THE TALENT GAP between supply and demand is pervasive in the developing world, the particulars vary by country. The charts below show where deficits and surpluses exist in Brazil, Russia, India, and China at four levels: entry, middle management, country leadership, and regional leadership. The shaded areas represent the talent pool; the white areas show deficits or surpluses of talent. The charts illustrate averages for these countries; further analysis reveals variations across business sectors. A few highlights are boxed below.



Source: Egon Zehnder International

ritories of India. Arogya's leader, Olivier Jarry, joined because of the brand promise to make lives better around the world. "We improve the health and health education of the villagers," he says. "We provide a source of revenue for local talent working with us on the ground. We are helping local doctors and pharmacists. This is a tremendously exciting mission."

How do brand, opportunity, and purpose come together as a promise made at Standard Chartered Bank? The company's CEO, Peter Sands, explains, "We are serious about being a force for good in the world. It's not an add-on for us. We are leaders in microfinance, supporting fledgling entrepreneurs in some of the world's poorest regions. We seek out, as a part of our strategic intent, opportunities to support renewable-energy businesses. By design we are among the world's most diverse organizations, so top talents from all walks of life are attracted to us because they know they will be embraced as central to our mission, not peripheral."

Retaining Talent: Promises Kept

Brand, opportunity, and purpose can create compelling promises, but in such a competitive market the temptation is to overpromise just to get people in the door. Failure to deliver will sour current employees on the company and ultimately hurt its appeal for potential employees. That is why keeping promises – important in any market – takes on particular urgency in emerging markets, where employees can quickly and easily move to global competitors or local companies that appear to offer greater overall rewards. Many companies we've studied have experienced extraordinarily high attrition rates.

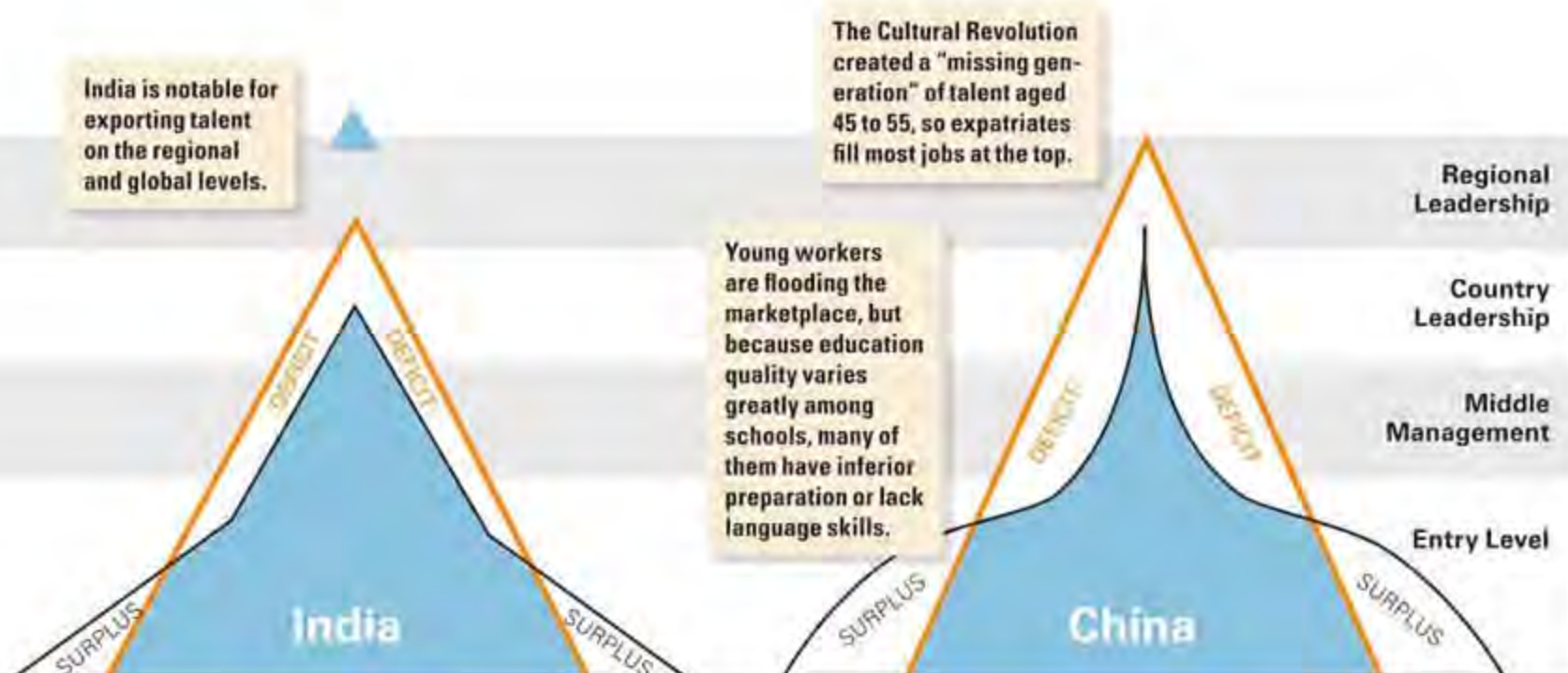
Culture, however, can play a central role in employee retention. Hemant Mishr's team at SCB sells into several of the most economically depressed areas in the world; Mishr joined SCB

largely because of its brand and its purpose, which includes a commitment to supporting local communities. He stays, he says, because of the culture: SCB is a meritocracy that carefully nurtures his career, and it lives up to the values that attracted him in the first place. "It's not about pay," he says. "I could go elsewhere and earn more – lots more."

Like Mishr, many of the people we interviewed were seeking a culture that would support the promise of an accelerated career path with growth opportunities for everyone, a commitment to meritocracy, and custom career planning. HCL Technologies has such a culture. A global IT company headquartered in India, HCL employs about 55,000 people in 18 countries. When Vineet Nayar became its president, in 2005, he knew he had to do something drastic to turn around the company, formerly one of India's most innovative, which in 1999 had been first in the country in terms of revenues but by 2005 was fifth.

Nayar started with culture. He told us, "I wanted to create an environment where employee development and empowerment was the most important thing, because ultimately I wanted value-focused employees who were willing and able to drive an innovative, sophisticated experience for customers." Nayar quickly assembled a 20-person team of "young sparks," an energetic group from among HCL's top employees; they coined the slogan that became HCL's strategy for the next two years: "Employee first, customer second." The notion is simple – the best way to bring value to customers is to empower employees.

Throughout 2005 Nayar and the young sparks unveiled initiatives designed to remove barriers to employees' doing their best work. They started by revamping the company's intranet. Using a software application, employees can "raise tickets" to



report problems with HCL services and processes. In real time they can watch the actions taken to correct a problem, and a ticket can be closed only by the employee who raised it. By 2006, employees were raising 30,000 tickets a month. The site also created transparency: An employee can pose any question at all to Nayar, who personally answers up to 100 inquiries a week. Shortly after its revitalization the intranet was being visited by close to 25,000 employees every week.

In addition, after a few months in office Nayar posted his own 360-degree feedback on the intranet and encouraged his senior managers to do the same; today more than 2,000 managers publicly post their feedback. Indian companies traditionally control information at the top, so the move to public 360s truly distinguished HCL. In interview after interview employees told us of the tremendous impact such transparency has on their career choices.

In another differentiating move, HCL instituted "trust pay." Many IT companies in India offer employees a combination of 70% fixed pay and 30% variable pay. In practice, high internal targets make it difficult to earn that 30%. HCL decided to offer 85% of its employees (mostly junior engineers) a fixed compensation rate, to be set at the beginning of each annual cycle. Some new hires actually thought a mistake had been made in their offer letters, because they'd never known another company to offer trust pay. This is very appealing to recruits from the developing world, because often their whole families are invested in their success. Parents, siblings, and other relatives have worked hard to send them to school, and once they know they can support their loved ones, they can focus on their work.

Because HCL has stayed true to its promises, its employees are dedicated and its customers are taking note. The company's reputation for customer service has consistently improved over the past four years, resulting in major new contracts. Nayar, who is now the CEO, says, "Putting employees first isn't about launching a few initiatives that make them feel good. It's about offering a workplace where employees, no matter their level, can have an impact, can be a part of something exciting, and can grow professionally and personally."

Leadership development is another cultural element that strongly influences retention. Careers must be carefully nurtured, and finding the time to do that may seem like a luxury when

the pressure to grow is so great. But companies can't set such concerns aside, lest they lose high-potential talent as fast as they bring it in.

Lenovo very methodically provides accelerated development opportunities for its employees. Mary Eckenrod, the head of talent management, has conducted extensive research into how leaders learn and the potential career stages at technology-based organizations in emerging markets. She has worked with Lenovo's top team to construct career maps and pipelines for every member of the company's pool of high potentials, including the CEO. All employees are asked to reflect on their career aspirations, the experiences and education that have led to their current roles in the organization, and the development they need to reach their goals.

What makes Lenovo's talent-tracking process work, however, is that the career maps are linked to key slots across the globe and accountability for the entire process rests squarely with line leadership, not with HR. Its employees are ambitious, and Lenovo needs to demonstrate that it is serious about developing their careers.

Do SCB, HCL, and Lenovo have a choice about how they approach development? Absolutely. They could focus on attracting the small handful of people with proven experience, as many companies do, but instead they hire largely on the basis of potential. They could enroll in the "cream rises to the top" school of leadership development, believing that the best talent will emerge even if the company fails to provide development opportunities. But the companies that are winning the talent race in emerging markets are not only using brand, opportunity, and purpose to attract the best people; they are investing heavily in career planning and professional development even at the lowest levels, because the workforce is so young. These companies' cultures send a powerful message to employees: Your potential is limited only by your dedication, effort, and ability to produce results.

The Talent Compact at Standard Chartered Bank

As China's economy continues to grow at a breakneck pace, thousands of new businesses are starting up, discretionary income is growing rapidly with the emergence of a new middle class, and wealth is being created as never before. Trying to recruit and retain high-caliber



talent in the financial services field, the engine of much of the economy's growth, can be daunting – especially since April 2007, when the Chinese government loosened restrictions on foreign ownership of local banks. Multinational financial services firms have since flooded China.

The gap between employee supply and demand is especially wide when it comes to candidates capable of moving into senior leadership roles. Many recruits fresh out of universities lack the language and other skills to take on even entry-level positions in global companies. Nevertheless, salaries in China have risen out of proportion to the expertise of the talent pool, creating unrealistic expectations among potential employees.

In emerging economies, companies have no choice but to nurture local talent – and those bright young recruits want to see others like them in positions of power.

Moreover, China's one-child policy has created a unique problem. As one manager put it, "Consider that millions of young Chinese have no siblings and no cousins. It's not too difficult to see how the child can become the center of attention for the entire family. It's not easy giving critical feedback to someone who is not used to it and who has lots of employment options elsewhere."

Recall SCB's former difficulty in recruiting leaders for its banking operations in China. The company's strategy illustrates our framework in particularly illuminating ways.

Katherine Tsang, the CEO of SCB China since 2005, says, "These challenges forced us to tell the SCB story with passion, but to make sure that our culture and management practices matched that story in an honest way. We tell lots of stories here about our mission, our sense of purpose, and our brand, and the many opportunities that young people will get when they come to work for us. But we need to keep those promises." Together with Geraldine Haley, SCB's group head of talent management, Tsang created what the company calls the "raw talent superhighway" for SCB China, which is designed to attract and retain good people. The bank emphasizes acquiring specialized skills, followed by broad managerial training and development, followed by global networks and leadership development. Several components went into the highway's construction.

Selection. Tsang's and Haley's teams conducted extensive analyses of the skills and talents required by both retail and commercial bankers in China. Then they investigated non-banking industries, such as travel and tourism, that had developed similar expertise, especially in customer relations. SCB China set out to aggressively recruit promising employees

from these other industries; it was able to offer higher pay and significantly greater opportunities for career advancement.

Induction and orientation. SCB runs a standard induction program, but it offers an intensive version for its raw-talent hires – employees who demonstrate the desired behaviors and values but have no skills in financial services. This program introduces recruits to the company's culture and values and teaches them the ethical management of financial services, including money-laundering prevention and codes of conduct.

Technical training. SCB's retail division offers extensive training, and relationship managers in its wholesale business must complete a rigorous five-day "boot camp." All trainees

must pass a strict examination before they are exposed to the bank's customers and clients. Skilled and seasoned managers conduct most of these sessions.

Professional and management development. SCB's raw recruits also get intensive training in the English language, communication and listening skills, and business etiquette, and they have a variety of ongoing educational opportunities. They receive career guidance and access to networking sessions, enabling them to explore different paths at the bank. In addition, SCB offers the Great Manager Program, which has won best-practice awards in China and elsewhere in Asia for its creativity and effectiveness in management development. The company has regional learning centers throughout China and e-learning platforms, so development is accessible to all. SCB is forming strategic partnerships with Chinese universities, both to strengthen relationships for recruitment and to offer those who join the company ongoing professional development at those schools.

Stretch assignments and deployment. One SCB message to recruits is captured in "Go places..." which has a double meaning: It tells people that if they join the bank and do well they will move ahead in their careers, and it reminds them that SCB is a global company with opportunities around the world. Chinese talent is often moved elsewhere, including to the group head office in London.

Personal development and performance management. SCB employees explore their passions and strengths, with coaching and guidance, to find a starting point for their careers. Although the SCB environment is nurturing, Tsang and other leaders don't hesitate to give regular and often tough feedback. "We deal with problems openly and honestly, and

that has led to the creation of an authentic and trust-based culture. People know we are a straight meritocracy, and that motivates them."

CEO Peter Sands says, "We have an exciting growth story, but more important, people can translate that story into growth opportunities for themselves. We have 25-year-olds looking at 32-year-olds doing big jobs. These young people see who they can become, and that they don't have to wait 30 years to do it." Through these efforts the bank was able to decrease attrition by 3% from 2007 to 2008. That may not sound like much, but consider that SCB is bringing thousands of people on board every year. What's more, most companies in these markets are experiencing a dramatic increase in attrition.


Thoughtful Execution

We have described principles that any company, in any market, would probably do well to heed. But emerging markets pose some special challenges worth noting. First, beware of exporting your domestic talent strategy to emerging markets. Even if that strategy is highly successful at home, it will probably need extensive tailoring to succeed in the developing world. Second, it's critical to establish a core of local talent (or of outsiders with a long history in emerging markets) that can guide you in understanding the region. Sending in a talent officer from the corporate center is unlikely to do the trick; despite the pressure to bring people on board quickly, investments in talent take root only with patience. Third, keep in mind that an overreliance on English as the "official language" of the business may prove an impediment to spotting talent. Some of your most promising people may not speak English fluently.

Finally, it's not easy to embrace and leverage diversity; companies struggle with this in the developed world, too, and very few demonstrate much diversity at the top. In emerging economies, companies have no choice but to nurture local talent, because that's the pool available and because those bright young recruits want to see others like them in positions of power. A truly merit-based company will stand out to them—particularly in hierarchical societies where getting ahead has often relied on family connections and other relationships, social status, age, or length of tenure.

People in different cultures want and expect different things from their work. Gabriel Rozman, of TCS Iberoamerica, reminded us that leading a team in India is not the same as leading a team

in Brazil or Uruguay. He recognizes that his company must develop people who can lead diverse teams in various settings. Of course, this makes a commitment to keeping promises made all the more daunting, because companies can't implement one-size-fits-all processes. First figuring out which aspects of the strategy can be standardized and executed at scale and which must be sharply tuned to local needs and then coordinating implementation takes some effort—but it delivers payback. Over time, global companies may even be able to bring home some lessons about meritocracy and diversity.

As global companies are well aware, winning the race for talent in emerging markets is hard work. It requires both the explosiveness of the sprinter and the determination of the marathon runner. The framework we have outlined here should help companies assemble the workforce they need to compete on a world-class level. 

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CISCO SEES THE

Cisco's CEO on reading
market trends before
anyone else does

JOHN CHAMBERS LEARNED his first lesson in navigating currents when he was just six years old. While on a fishing trip with his father, he fell into a rushing river and was sucked below the surface. Tossed about in the water, he heard his father yell, "Hang on to that pole!" The boy kept calm and did as he was told. His father raced down the bank, jumped into the water, and fished young John out. Then the boy received the standard lecture about surrendering to the tide, picking a point of land, and riding the current to it. "I gained a lot of respect for what a strong current can do," Chambers says, "but I also learned to have no fear of it."

Founded in 1984, Cisco Systems, the world's largest provider of internet networking and communications equipment, underwent its own near-drowning

Achille Bigliardi Photography



FUTURE

**Interviewed by Bronwyn Fryer
and Thomas A. Stewart**

experience. Following the burst of the internet bubble in 2000, Chambers was forced to lay off nearly 8,000 full-time employees, contractors, and vendors and write down some \$2 billion in inventory. The experience was bruising, but Chambers was able to pick his point of land and right the company very quickly.

He learned from that lesson, too. Since then, Chambers – who will begin his 14th year at Cisco's helm in January 2009 – has demonstrated a nearly uncanny ability to survive downturns, see long-term trends, and identify market transitions, which he defines as an undercurrent propelling the technology market in a generally unforeseen way. Since the late 1990s, Chambers and his leadership team have sensed developments in emerging markets and networked-based technology well before Cisco's closest competitors, helping the company navigate the currents even during periods of economic contraction.

But just how does Cisco see the future? What are the combinations of conversations and processes that allow Cisco to foresee trends and rapidly capitalize on them?

The following is an edited presentation of Chambers' thoughts, which he offered in two interview sessions with HBR senior editor Bronwyn Fryer and former editor Thomas A. Stewart. One of the meetings was held via Tele-Presence, Cisco's real-time, high-definition video communication system; the other took place at Cisco's headquarters in San Jose, California.

In speeches, you talk about the importance of identifying and managing "market transitions," but it's not entirely clear what you mean by that. What are some examples?

A market transition occurs when there is a subtle but clear disruptive shift. It could be social, economic, or technological, and it begins many years before the market actually grasps its significance and adapts to it. A market transition gives you a glimpse of a new opportunity to take market share or move into new market adjacencies, and it can take many forms. For instance, it could be a process shift, like the shift to open source software. Instead of being wedded to one company's development platform, like Windows, UNIX, or the Mac operating system, people began experimenting with a new process for developing software in which many individuals contribute their skills for free. This way of doing things took many, including Microsoft, by surprise.

IDEA IN BRIEF

- » How can companies with products that have long development lead times know what to produce years in advance of the market?
- » Cisco is able to predict trends six to eight years ahead even in the highly volatile technology market by recognizing early-warning signals its customers unwittingly give off. To capitalize on these "market shifts," Chambers gave up his command-and-control style and made decision making highly collaborative.
- » Now an organization that used to carry out one or two cross-company initiatives a year can successfully handle dozens at a time

A market transition could also be a business-model shift. There was a time when phone-based customer support was the best way to address customer issues. But in the early 1990s, our customers began telling us they wanted to find answers to their questions more easily. So we decided to put technical problems and their solutions on our website. That became standard practice in our industry many years later, but back in the early '90s it was risky and radical. By the late '90s, well over 85% of our customer troubleshooting was handled directly on the web.

How are market transitions different from market disruptions? Which is the chicken and which is the egg?

I'd say that market transitions are the precursors to market disruptions, and in many cases, transitions cause the dis-

ruptions. Transitions can be driven by the customer, by the industry, or by economic factors, and they usually occur well before the rest of the world realizes what's happening. Disruption occurs as the market responds to a transition with a game-changing innovation.

I look for transitions that are way ahead of the current – or even impending – technology cycle. It takes us three to five years to reach \$1 billion in revenue after a new product idea is launched. If you add to that a two-to-three-year development cycle, plus the six to nine months it takes for the organization to grasp the transition opportunity before committing to the development cycle, you get an idea of how far out we must recognize a transition to really capitalize on it.

Back in the mid-1990s, you predicted that voice would become free. Your service-provider customers must not have been very happy to hear that.

Of course, that comment put us in somewhat of a penalty box with the telephone companies for a while. I went to talk to the leaders of two major telcos and said, "Your primary revenue stream could almost completely disappear. You need to move to other services and other capabilities to replace the disruption enabled by voice over IP."

Our non-telco customers were giving us clues we just couldn't ignore. We saw customers across the board beginning to shift away from proprietary networks, like IBM's Systems Network Architecture (SNA), toward Internet Protocol-based networks. They were voting with their dollars, even though bandwidth was pretty limited then. We applied Moore's law to networking to predict what IP networks could be capable of

five years from that point. We saw that if a router could support a kilobyte today, it could support a megabyte tomorrow. And when that happened, we believed, everything – not just data, but things that had never gone over IP networks, like voice and video – would be connected to the internet. So, in 1997, we announced that our equipment would support voice capability. We understood then that there was a real opportunity in the market – companies would build voice over IP (VoIP) networks and eventually would extend these kinds of services into the home.

The telcos probably thought you were trying to destroy their business model. Were you?

From my perspective, it looked like 80% or 90% of their revenue was about to vanish. And, frankly, I didn't want to see our customers put into that situation. We learned early on from companies like General Electric, Boeing, and General Motors not to compete with our customers but rather to collaborate with them. We reached out to our service-provider customers and proposed that we partner together to help build the business model of the future for delivering all kinds of services over an IP network. Instead of what could have been a competitive situation, today we have a very strong partnership with telecommunications carriers.

You say you were listening to clues from non-telco customers, but every company says it listens to customers. What do you do that other companies don't?

Customers always have more frontline knowledge about the technology in action. So while many companies set their strategy based on competition or their own so-called "technology religion," ours is set solely on two things – listening to our customers, who tell us what the market transitions are, and then capturing those market transitions.

Sometimes, the customer can be pretty blunt. I met once with one who said, "John, here's a \$10 million order you're not going to get unless you buy this [other] company." I left that meeting with a \$10 million check in my pocket and a commitment in my mind to acquire Crescendo, which we did. We paid \$92 million for a company with less than \$10 million in revenue in 1993, and a lot of analysts thought we were crazy. But that turned into a \$7 billion a year business for our switch-

MARKET TRANSITIONS occur several years before Cisco can develop the offerings that will capitalize on them. To identify an impending market transition, CEO John Chambers listens closely to hints dropped by customers about new technologies on the horizon, shifts in the demographic or economic picture, and other trends.

EXAMPLES: In the early 1990s, a few customers began to shift away from proprietary networking technology toward IP networks. Applying Moore's Law, Cisco saw that routers would one day be able to handle not just data but also voice traffic over those networks. Predicting the demise of telecommunication firms' traditional business model, Cisco developed routers for voice over IP. Today, a market transition toward consumer-driven technology is spurring Cisco to focus on developing seamless IP support for data, voice, and video across the 14 billion devices Cisco expects will connect to the internet by 2010.

To take advantage of market transitions, Cisco organizes for "collaborative management." Specifically, this means:

» **Eliminating hierarchy.** Chambers surrendered his top-down management style in favor of a collaborative one. All but a handful of senior leaders were able to make the transition to the new model.

» **Using collaborative teams:** Cisco manages opportunities by cross-functional, collaborative teams called "councils" and "boards," which are the equivalent of social-networking groups that work together in real time.

» **Taking advantage of video-conferencing technology.** Cisco relies heavily on TelePresence, a next-generation conferencing system installed in its offices (and its customers' offices), as well as in executives' homes. Meetings can be called spontaneously and team decisions made quickly without the need to travel.

ing unit. The same kind of thing happened when we acquired Scientific Atlanta in 2006. Our internet service provider (ISP) customers told us they needed network support for video, so it made sense to buy one of the only companies that had mastered the art and science of delivering video.

What else did you see back in the 1990s?

Since we thought everything would converge to the internet, we felt we needed to move beyond just corporate computing. So in 1993, I said we were going to change the way the world works, lives, plays, and learns. At the time that sounded like a nice tagline, but what I meant was that the network was capable of changing everything – all of life's experiences beyond just work – everything from health care to education to how you connect with your friends and family while watching a sports event, even if you're hundreds of miles apart. We saw that we could tie disparate networks together architecturally. Today, you have the option to connect by wire or wirelessly, from work, home, the office, or the road. Although you seem to be connecting to one network, you're actually rolling seamlessly from one network to the next.

What's currently driving market transitions?

Ten years ago, most IT and network-enabled market transitions were driven by businesses. Today, most IT market transitions are being driven by consumers. As more and more young people in places like China and India embrace technology, we're seeing consumers drive social-networking technologies and collaborative behaviors beyond their personal lives into their work lives. In response, global businesses are adding collaborative structures and processes to social-networking technologies and are beginning to reap large productivity benefits.

For example, from a business-model and leadership perspective, we're seeing a massive shift from management by command and control to management by collaboration and teamwork. You could almost say this shift is as revolutionary as the assembly line. Business processes are being turned upside down to better compete in a global environment.

This shift has changed the way we approach innovation. In the past, new product ideas were developed by just a handful of Cisco's engineering leaders. This year, we opened it up to literally anyone with access to the internet through a global competition called "i-Prize." The idea behind i-Prize was to allow engineers from around the world to submit ideas for an emerging technology. The winning team would be given \$250,000 and jobs at Cisco to help us develop this technology.

The results were incredible. We received over 1,100 submissions that poured in from 104 countries on six continents. We filtered these ideas through a combination of Cisco collaborative technologies before selecting a winner in August 2008.

These new collaborative behaviors and technologies are changing the way we approach every aspect of our business – acquisitions, sales, engineering, legal, communication, marketing, and other business functions – significantly accelerating innovation, productivity, and growth.

How do current economic conditions figure in with long-term transitions? How do you react to economic downturns, for instance?

We've become pretty good at tapping opportunities from economic down cycles. In the face of every one – in 1993, 1997, 2001, 2003, and now in the current one – we became even more aggressive in our investments in existing and new market opportunities. At the same time, our peers often became very conservative.

Remember the Asian financial crisis in 1997? Most of the economies in the area were contracting. I knew that Cisco's peers were making a potentially major mistake by dramatically cutting back their resources there, so we did the reverse. Straight into the economic downturn, we decided to increase our resources and send a number of senior executives to expand our presence in the region. Within a year, we gained the number-one market position in almost all the Asian countries,

Go to cisco.hbr.org to watch an interview with John Chambers.

and we never gave it up. Back then, this appeared to be a risky move; today, with the rise of countries like India and China, it is clearly paying off.

What else are you seeing right now?

In terms of what's happening right now, I think the biggest market transition is the shift to a more collaborative world, which is only made possible by what we call an "intelligent, network-centric" world. This network-centric world encompasses the whole range of communication experiences and seamlessly delivers information. Consumers will access voice, the web, e-mail, and video by any of the 14 billion devices that we think will be connected to the internet by 2010, all loaded onto the network. In the very near future, for example, you won't need to hang up your cell phone if you want to switch to a landline; you'll stay connected as you change devices, as long as they're all connected to a network.

We're also seeing that everything will follow a service model. Software is already being offered as a service instead of a product, but we are now seeing IT support as a service, publishing as a service, and – especially interesting for Cisco – hybrid models of devices and service. With more than 150 million sold worldwide, the iPod/iTunes package is a great example of a network-based service platform driving massive device adoption.

Because of this networked world, we are also seeing a shift from a device-centric to a virtualized model – so we think content will find you, because it will be delivered to any device via the network. When I go to a sporting event, for instance, the content provider will know which team I'm rooting for and who my favorite players are, and even what my favorite snack is to eat at the game – which means they can meet consumers' needs more precisely and generate more revenue for themselves.

It must be hard to manage a lot of market transitions at once.

It is difficult and is becoming increasingly more so – but it can, and must, be done.

The truth is that each time a market is in transition, you can either gain or lose market share. If there was a time that we lost market share, it was because we moved too slowly; we weren't moving at the "speed of thought," to borrow a phrase from Bill Gates. So we've had to build speed and scale into all of our processes, particularly within our sales force. Spotting a market transition only counts if you can capture it and execute on it. That's where our sales team comes in.

They have developed a meticulous bottom-up forecasting approach, which consists of weekly commit calls that roll up from account managers worldwide to me. The unique aspect about it is that the salespeople make verbal commitments in front of their peers on a weekly basis. We think this has given us an edge in executing on market transitions.

So there's a process for capitalizing on market transitions?

Yes – first, listening to customers to identify what transitions are coming and then having the processes, technology, and culture in place to capture the transitions. I believe that only those companies that build collaboration into their DNA by tapping into the collective expertise of all employees – instead of just a few select leaders at the top – will succeed, as more and more market transitions occur at once. This sounds easy, but it is incredibly complex.

At Cisco, our major priorities are managed not by our top five to 10 executives but instead by cross-functional, collaborative councils and boards. And, in fact, our engineering organization – which is a third of our total employee base – is not run by a single leader but instead by what we call our Development Council, which is made up of the nine senior vice presidents who lead our engineering divisions. This companywide, council-based leadership model has allowed us to move from taking on only one or two cross-functional priorities a year in

plan has an owner who makes a commitment to his or her peers and is held to that commitment and measured on the results. In fact, compensation for many of our top executives is based more on their success within the councils they belong to than on their individual performance. In this way, management can consider many, many opportunities spanning the capabilities of the company, instead of just viewing them by silo or by function. This allows us to have constructive discussions, get buy-in, and then execute rapidly.

Twenty-two initiatives is a tremendously large number to manage simultaneously. How do you make them work, operationally?

The power of collaboration is not in adding more people to the process but in getting immediate input from smart people and thinking through a problem as a group.

I don't let boards or councils start an initiative unless they can show me the strategy to become number one or two in a market segment – and a plan to sustain and grow that position.

We've become pretty good at
tapping opportunities from downturns.

the past to addressing 22 this year. We think this is what organizations of the future will look like and that this 21st century leadership style will be a major competitive advantage for us over the next decade.

How do the boards and councils work?

Boards and councils are the business equivalent of social-networking groups, where groups of people with relevant expertise work together to make and execute key decisions supported by networked Web 2.0 technologies. Councils are established where we believe we have a \$10 billion opportunity, boards are created for \$1 billion opportunities, and working groups are formed for more tactical initiatives related to a board or council. Working groups are accountable to boards, boards to councils, and councils to the Operating Committee, which consists of two dozen or so senior leaders at Cisco. Each person on a board, council, or working group has the authority to speak on behalf of their entire organization, allowing decisions to be made in real time, with all who may be affected by the decision sitting in one room.

The councils and boards propose possible initiatives to the Operating Committee through highly detailed business plans that have to answer three questions: What's the vision? What's our strategy for sustainable differentiation? And how are we going to execute the plan over the next 12 to 18 months? Each

Let's use the Sports and Entertainment Board as an example. One opportunity the team came up with was to stream video in big stadiums. Right now, all stadiums are equipped with TV screens where you can watch the game while you're waiting to buy a beer and a hot dog. Turning all these TVs on and off is labor intensive and expensive. So the Sports and Entertainment Board detailed a proposition for the stadium franchises: "What if we networked the TVs so you could turn them on and off through a central location and also push advertising during game breaks?" Once we approved the initiative, the leaders of the board collaborated with other internal organizations, assigned some experts and sports enthusiasts to a short-term project to help, and moved quickly to offer the franchises the solution. In the end, the board achieved what could become a huge opportunity for us – all without asking for any additional people or dollars.

Another example is the EcoBoard, which was formed in 2007 by senior leaders to build out Cisco's green vision and strategy. This is an issue that touches so many different areas of the company, where we can have the biggest impact only if we work across functions to address it. Since establishing this board, we've been able to design products, campaigns, and employee programs to help drive "green" into our products, culture, and operations. We couldn't do that with a single function working in isolation.

It must be a challenge for you, as a longtime CEO, to let go enough to allow this level of independence.

Make no mistake about it—in the past, I was always a command-and-control type. If I said, “Turn right,” all 65,000 employees turned right. But it’s not possible for an organization to scale and take on more when only one person is driving all the strategy. When you’re a command-and-control CEO, individuals impacted by your decisions can choose not to buy in and either slow, or even stop, the process. That is especially dangerous in an industry that moves as fast as this one. In my view,

or watch them cross their arms, and change your discussion based on these important nonverbal cues.

For example, right after we launched TelePresence, I was looking at a report regarding some global ISP trends, at a time when we were loading their networks with audio and video capabilities very rapidly. I saw a slight downturn in demand that I didn’t understand, and I needed to get my arms around it really fast. So I called a TelePresence meeting that afternoon with the team, who were in their home offices or in conference rooms in Beijing, Frankfurt, New Delhi, Kuwait,

Twenty percent of our top management team wasn’t able to make the transition to the new model **and had to move on.**

the days of being vertically integrated and having everything within your control will never return.

The entire leadership team, including me, had to invent a different way to operate. It was hard for me at first to learn to be collaborative. The minute I’d get into a meeting, I’d listen for about 10 minutes while the team discussed a problem. I knew what the answer was, and eventually I’d say, “All right, here’s what we’re going to do.” But when I learned to let go and give the team the time to come to the right conclusion, I found they made just as good decisions, or even better—and, just as important, they were even more invested in the decision and thus executed with greater speed and commitment. I had to develop the patience to let the group think.

What systems did Cisco develop to foster collaboration?

We couldn’t possibly deal with one or two big priorities—let alone 22—unless we figured out a way to work together quickly, without having to get everyone on a plane. One thing we did was develop a technology called TelePresence, which is a lifelike, ultra-high-definition videoconferencing system that enables meetings so realistic that they truly feel like everyone is in the same room together even if they’re thousands of miles away. Past videoconferencing solutions didn’t provide this level of in-person experience, so they were not heavily used. In contrast, we have already had well over 100,000 TelePresence meetings at Cisco, which has saved us significant time and carbon emissions by reducing travel, and taken 20% off our annual travel budget.

The so-called intangibles are just as important—the ability to read someone’s expression and body language while you’re trying to make tough decisions or make a tough sale. With TelePresence, you can literally see a customer’s pupils dilate,

and San Jose. We could see everyone life-size and hear each other clearly, without delay, as if we were all sitting around a table in the same room. The call lasted about 15 minutes; we talked as a team about possible installation delays in some parts of the world and came to a conclusion. What might have taken days before took us just 15 minutes, and we were able to make decisions out of this single short session.

Seems wonderful, but collaborative management must be more than just videoconferencing. It sounds like it requires a deeper organizational change.

Absolutely. The process changes are as significant and as important to the success of this collaborative model as the technology.

To me, collaborative management means putting a lot of people who speak a common language to work toward a common goal. It also means you lead the team through a collaborative process—but then, when the group has come to a consensus, the leader drives the team through execution. It’s important not to collaborate all the way through the execution phase or the entire engine could grind to a halt.

For the first two years after we started using the collaborative model, everyone would have opted out if given the option. Without exception, nobody liked it. But I didn’t give them a choice in the matter—I forced people to work with others they didn’t get along with, and I stretched people in a lot of ways. And we based compensation on their collaborative abilities, as opposed to their individual performance. The first year we did that two of my top leaders got zero bonus. You can bet they learned very quickly how to collaborate. And, in fact, 20% of our top management team wasn’t able to make this transition to the new model and had to move on. It’s not that they

weren't successful working on their own or that they weren't good people; they just couldn't collaborate effectively.

This environment is not about being the smartest in the room or about winning all the arguments. This is about working together as a team for the success of the entire organization, and it's something that needs to be driven into the culture.

How did you get everyone else on board?

Clear and consistent communication was and is very, very important to making this whole thing work. It's all fine and good if these councils and boards are driving these great plans, but if the frontline sales teams, and the teams down in the organization who support them, don't get the same message, then the whole system can break down. So we've developed what we call a taxonomy, which is a clear and consistent vocabulary to ensure that everyone – in every country in which we do business – is speaking the same language.

A simple example of this is our VSE process – which stands for "vision, strategy, and execution." Everyone in the company understands how we define these three terms, and all the councils and boards are expected to develop a VSE framework for the objective or problem they're trying to solve.

You must need to realign resources quickly, given the speed at which you have to jump into new initiatives. How does that happen?

Teaching people how to do a lot with a little is very difficult, especially during a downturn. Over the next year we may increase head count only nominally, and yet we have these 22 cross-company priorities that will, in theory, require a doubling of resources. So the first thing you need to do is build a culture that will take risks but then accept failures. People have to be able to identify a problem fast, work with the teams to course correct, and then, if necessary, change direction altogether.


Second, people have to be extremely flexible when it comes to support and money – they have to learn to prioritize as a team, help one another, and then move on together. This is not about perfection or always asking for permission; both can really slow you down.

We recently hired a brilliant chief technology officer. She has almost zero resources. The only way she can work effectively is to collaborate with the extended leadership team across the company, since she simply can't deliver results by herself. Fortunately,

we're finding that our collaborative management is really working; it's becoming viral. In the end, the teams are able to appropriately align resources to solve the problems, and the model allows them to move faster than ever before.

One last question. You've been a CEO now for close to 14 years. How do you stay on top of your game, particularly in the technology world?

My team says I'm like the Energizer Bunny: I just don't slow down. When we said almost 16 years ago that we could change the way the world works, lives, learns, and plays, people thought it was a marketing statement. But it's exactly what we've attempted to do since the beginning at Cisco, and it's what drives me and many others to come to work every day and give it all our energy.

The truth is that no one who is motivated and competitive like I am can stay on top of their game for that long unless the game changes and provides new challenges. The game has changed dozens of times since I started and now is played at a global level. That's exciting to me. I love what I do. It's fun, and it keeps my mind challenged. 

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"I'm more of a 'Yes, but-' man."



Tomorrow's Global Giants

Not the Usual Suspects

by Pankaj Ghemawat and Thomas Hout

Changes in demand, market power, and business models are starting to produce surprising winners in big emerging markets.

WESTERN COMPANIES' INTEREST in emerging markets, especially China and India, is reaching a new level of intensity. Usual suspects such as IBM and Unilever, of course, are aggressively expanding their presence there, but so are nippy newcomers like Orbea, a \$100 million Spanish manufacturer of ultralight carbon fiber bikes. At the same time, developing countries are pulsating with companies that think of themselves as the next multinationals, pushing outward from their home bases to establish global presence if not dominance.

What will happen when these two wave trains collide head-on? Which kind of multinational – established or emerging – is eventually going to prevail globally? It depends: So far the evidence strongly suggests that industry characteristics will sort the winners from the losers. At least in China, established MNCs continue to dominate knowledge- and brand-intensive businesses, whereas Chinese companies hold an advantage in industries where production and logistics matter most, and are successfully moving outside the home market.

But is industry always destiny? Can a company break the pattern? It can if it rides rapid customer growth in a large

Guy Billout



market, manages cost convergences, or carves out new space by reworking the industry's value chain.

Our purpose here is to explore ways to take advantage of such opportunities. We describe how some established multinationals in production- and logistics-oriented businesses have started to beat local players at their own game and how some emerging-market challengers are outperforming their supposedly more sophisticated competitors in knowledge- and brand-intensive industries. From their experiences we have drawn strategic and management lessons that will enable you to make the right decisions for your company – whether as the CEO of an emerging multinational struggling to compete in a field dominated by giants or as the leader of an established multinational faced with apparently insurmountable disadvantages in costs and local knowledge.

Exploiting Segment Evolution

In emerging markets, established multinationals typically take the early lead in the high-end consumer and high-performance industrial segments, and local companies do so in the low-end and low-performance segments. But as the economy develops, both customers and competitors evolve. Some customers want more (or fewer) features, services, bundles, and price options, and the number of segments up and down the market grows. The MNC or local competitor that can quickly follow – or better, anticipate – this segment evolution will be well positioned to invade others' territory.

Being close to the market can make up for product-related weaknesses, especially if local customers have unique consumption habits. Google and eBay were early leaders in search and auction in China but have been overtaken by local sites Baidu and Taobao, even though Google has more global content than Baidu and eBay screens counterfeit products better than Taobao; Amazon similarly trails Dangdang in e-commerce. China's governmental interference with some of the U.S.-based websites plays a role in this reversal, but local competitors have also reacted more quickly to changes in Chinese internet behavior and have more successfully navigated the practical problems of delivering services in an emerging market. Baidu noticed Chinese users' comfort with a busier screen and a free, advertising-driven model. It marketed itself cleverly by placing its logos on ATMs throughout China

IDEA IN BRIEF

» In emerging markets, Western multinational corporations typically dominate R&D- or brand-intensive industries, whereas local players usually win in businesses where logistics or production savvy is key. But smart companies can break that pattern.

» There are a number of ways to overcome industry disadvantages. For instance, established MNCs can compete on costs or develop unconventional partnerships, and aspiring MNCs can parlay core strengths when making overseas acquisitions or use local knowledge to create targeted offerings at home.

» Both types of competitors face organizational challenges. Established MNCs need to be more responsive to local customers without losing the advantages of global know-how. Aspiring MNCs must compensate for their relative inexperience in cross-border coordination by tapping the expertise of giants – which can mean collaborating with them or even hiring away key personnel.

and was the first search engine there to self-censor its servers, winning goodwill with the government. Dangdang adapted to China's poor credit-card payment infrastructure by developing the best cash-settlement system. Today, U.S.-based sites are now in the unusual position of fighting to regain a leading position.

Knowledge of customers also helps you spot opportunities to bundle ancillary services and products in which you do have an advantage. Perhaps the most striking example is provided by Suzlon Energy, Asia's largest and the world's fifth-largest wind turbine maker. Founded in 1995 in India, Suzlon now competes internationally in a capital intensive, technologically sophisticated industry. Demand for wind energy is growing rapidly in India, putting power generators under pressure to provide it fast. Suzlon leverages its local knowledge and networks to offer an end-to-end, turnkey approach to selling: It helps to acquire permits for wind farmland, to deliver and maintain the farms, and to sell the power generated. Profits from these parts of the business can be higher than from the turbines themselves. Despite Suzlon's current product problems, its bundling strategy remains a huge plus.

But market evolution does not always favor the local company. Established MNCs can apply pressure by aggressively moving into new, fast-growing segments. Otis Elevator, the industry leader globally, has dominated China's elevator business from the start of the high-rise boom. Elevators are a mid-tech industry in which local contacts and ubiquitous service presence usually win the contract. Such an environment should have favored Chinese companies, but Otis arrived early and beat the locals in building out a service network.

Procter & Gamble, Nokia, and several Western banks are also extending distribution deep into China's countryside. P&G is the country's largest advertiser; has used lower-cost local practices and materials; and regards itself, much like Toyota in the United States, as a local player that can follow growth nearly anywhere. P&G China now offers products designed for different local market segments – in laundry detergents, for example, an advanced-country formulation for the premium tier; a modified product for the second (economy) tier, which won't pay for water softeners and perfumes; and a very basic product created from scratch for the third (rural)

tier, where it has set its sights on the traditional segment leader, Diao Pai.

P&G China has been so successful because it can do things Chinese competitors can't yet do. It has the ability, for example, to send local product developers to global R&D facilities to work with experienced technical specialists on creating better segment-specific products for China. Consequently, P&G, which is already the overall (all segments combined) leader in China in nearly all of the 16 product categories it competes in, will most likely continue to increase its presence in the country's lower-tier segments, where local companies have always held an advantage.

Established multinationals can also use technology and capital to accelerate segments' growth. The labor-intensive television set business offers an example. Over the decades, it followed a classic pattern of competitive advantage moving from high-cost to low-cost countries. In recent years, flat-screen technology gave established multinationals a new high-price, high-performance product segment as Chinese producers swarmed the market for cost-driven conventional TV sets. The likely scenario was that the Chinese would control conventional TVs and the Koreans and the Japanese would dominate flat screens until the pace of technology advances leveled off, at which point the Chinese would dominate both. But Samsung, Sharp, and others surprised Chinese producers with vicious flat-screen price competition, which collapsed the demand for conventional TV sets much faster than anticipated, bottoming out Chinese profits and accelerating the growth of the flat-screen segment.

MNCs trying to adapt and innovate in a big emerging market have to display tactical imagination to compensate for the local relationships native companies naturally enjoy. As a result, a number of established companies have embarked on rather unexpected partnerships. Ogilvy China broadened its understanding of consumer needs by working with the Communist Youth League of China, an organization of 70 million people. The Indiana-based diesel engine maker Cummins faced a shortage of well-trained engineers in India, so it teamed up with Maharshi Karve Stree

MULTINATIONAL COMPANIES FROM developed and emerging economies alike can gain a competitive advantage by moving outside their industry comfort zones.

» **When new segments emerge...**

Established MNCs should project where growth will be and go there, leverage their global capabilities, and use price and brand to accelerate the shift of demand.

EXAMPLE By slashing prices on flat-screen TVs, Samsung, Sharp, and others accelerated the segment's growth and undercut demand for conventional TVs, leaving Chinese producers high and dry.

Emerging-market MNCs should exploit local knowledge, ride home-product strengths into niche segments overseas, and avoid entering high-cost games they can't win.

EXAMPLE E-commerce site Dangdang edged out Amazon in China by recognizing the country's poor credit-card payment infrastructure and developing the best cash-settlement system.

» **When cost structures can converge...**

Established MNCs should mirror the best local players' cost structures as closely as possible, hire local talent, and internationalize senior manager positions.

EXAMPLE IBM and Accenture are ramping up operations in India and absconding with much of the local talent by paying more for it – simultaneously lowering their own costs and raising those of Indian rivals.

Emerging-market MNCs should anticipate losing their cost advantage over time, build capabilities to compete at the next level up, and use core operating strengths to acquire and turn around distressed businesses overseas.

EXAMPLE Chinese auto parts company Wanxiang has used the materials, design, and factory management know-how it gained in China to acquire and revive a number of U.S. producers.

» **When the value chain can be rearranged...**

All MNCs should place parts of the value chain in their most advantageous locations, partner with specialists, and make new start-ups as multinational as possible in their operations and management.

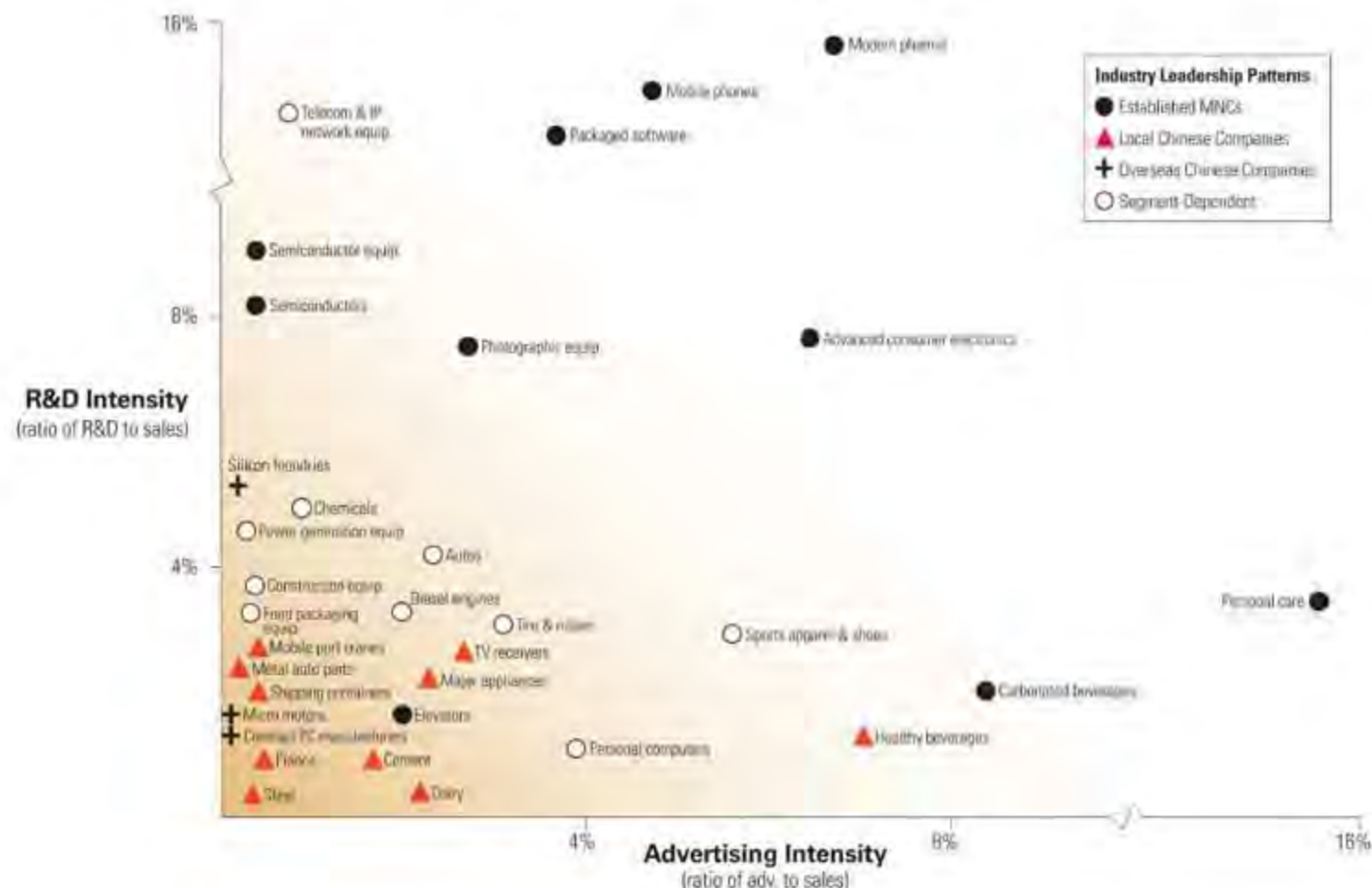
EXAMPLE Bharti Airtel has built up the largest mobile-services operation in India by specializing in a small part of the value chain – customer care and the regulatory interface – and outsourcing most everything else.

Shikshan Samstha – a 112-year-old women's educational institution in Pune – to create a new women's engineering college.

It would be nice if there were a formula for exploiting segment evolution across the globe, a way of "rolling out" to other markets lessons learned in earlier wins. However, every upset of a multinational or a local company in its customary domain is fairly distinct. A competitor can build cross-border networks, share learning, transfer experienced people, and incentivize new departures, but in fact the tactics used by Baidu,

Industry Still Matters: China's Industry Landscape

Although it's possible to buck your industry, never underestimate its power. So far, industry characteristics have been very accurate predictors of whether dominant global players are established- or emerging-market multinationals, as the data from China indicate. Established MNCs lead in businesses with a relatively high percentage of revenues going to R&D and advertising, and Chinese companies lead in those with lower percentages.



● **ESTABLISHED MNCs** lead in industries that are brand intensive and in those with rapidly changing technology and customer demands. That's because these industries reward new technology and product development, depth of knowledge about customers and different applications, brand management, and the ability to manage across borders – the strong suits of MNCs from developed countries. Apple and Sony, for instance, are at the top in advanced consumer electronics; Procter & Gamble and L'Oréal in personal care products; Johnson & Johnson and AstraZeneca in modern pharmaceuticals.

▲+ **CHINESE-OWNED COMPANIES** typically win in industries where a relatively high proportion of cost structure and capital goes to production and logistics and where product functionality, design, and customer needs change less frequently. These industries reward low costs in labor and materials and the ability to manage large-scale production facilities as well as local political-power structures – areas where the Chinese companies are strongest. For example, Haier and Rongsheng are leaders in home appliances; Baoshan and Hualing in commodity steel; Mengniu and Yili in dairy products.

○ **WINNERS IN SEGMENTED BUSINESSES** (with no overall leaders) depend largely on industry segment traits. Volkswagen, General Motors, Honda, and Toyota lead in higher-end, fully featured autos, whereas China's Chery and Geely lead the lower end. And despite Huawei's rising strength as a challenger in high-performance telecom and IP network equipment, Ericsson, Alcatel-Lucent, and Cisco head up most cutting-edge segments, whereas Chinese companies control the more mature product areas.

Sources: DTI's 2006 R&D Scoreboard, UK; Schonfeld & Associates Ad/Sales report; TI-K's China literature search; authors' analysis

P&G, Otis, and others were location specific and grew from the management teams' particular combinations of imagination and aggression.

Managing Convergences in Costs

Cost advantage no longer automatically stays with the emerging-market challenger – and this change is accelerating a race up the value ladder. For example, early Indian and Chinese successes overseas, by companies such as India's Bharat Forge in auto forgings and China's Haier in compact home appliances, have usually come in industries where low-cost niche products differentiate a brand. But established multinationals and other factors are eroding that cost advantage, which in turn is pushing emerging players to respond with higher-value offerings and better customer service and to move their production bases to other low-cost emerging markets.

The software-services industry provides a good example of this competitive dynamic. The Indian company Tata Consultancy Services (TCS) has always had a pretty clear profit formula: inexpensive, English-speaking software engineers; discipline in software coding and maintenance; and minimal capital investment. In addition, TCS has low defect rates and delivers services on budget. But its engineers' compensation has gone up 15% a year over the past three years, other Asian companies are trying to steal its customers, and it needs to understand its overseas customers better. Further, IBM and Accenture are aggressively building up their Indian operations, hiring tens

exporter, observed several years ago that his company's R&D productivity was only one-sixth of IBM's (the benchmark's), so he pushed Huawei's R&D up to 10% of sales, a level at that time unheard of in China. Another Chinese high-tech player, Lenovo, saw this hurdle and, deciding that the R&D route was too risky, bought IBM's personal computer business.

But as Chinese and Indian companies evolve in this way, they necessarily dilute their initial cost advantages. At the same time, India's and China's openness to foreign investment allows incumbent multinationals to lower their own cost bases. So as locals move up the ladder, established MNCs can move down it. Accenture and IBM aren't the only ones investing heavily in Indian operations. Nokia, Samsung, P&G, Siemens, and others are localizing cost structures, moving management decision making to China and India, and bringing more operations to those countries.

Consider the cell-phone business. In 2004, Ningbo Bird looked ready to displace Motorola and Nokia, the early leaders in China. Ningbo Bird had a low cost base, a broader distribution network, and, most of all, designs that were hot among China's young smart set. Nokia, for which China is easily now the largest single market, reacted aggressively across the board. It developed new, far more appealing cell phones for the Chinese market and, in order to sell them, radically expanded its sales and distribution network and developed proprietary IT platforms to help guide field sales and marketing. And it expanded its Chinese production facilities, neutralizing any cost

Cost advantage no longer automatically stays with the emerging-market challenger – and this change is accelerating a race up the value ladder.

of thousands of sought-after Indians by paying more, thereby lowering their own costs while raising those of TCS.

TCS and the other Indian leaders are responding by investing in U.S. and European operations to get closer to and defend their positions with their customers around the world. They are also acquiring new low-cost capacity in locations outside India, such as Latin America, and they have greatly expanded their education and training pipelines in India.

The speed of this process varies by industry. In software services and auto parts, the Indians' move to higher-value offerings has been fast; in pharmaceuticals, where technical and regulatory demands are severe and labor cost advantages are smaller, it has been far slower. Huge hurdles sometimes appear, especially in high-differentiation industries. Ren Zhengfei, the CEO of Huawei, China's leading telecom equipment producer and

disadvantage against local competitors. After two years, Nokia was on top again and Ningbo Bird had fallen back.

The limits to a cost-arbitrage advantage are even clearer when an emerging-market multinational tries to enter developed markets, as the U.S. experiences of Haier illustrate. The company tried to follow up its success in compact refrigerators with entry into midsize refrigerators. However, these were too bulky to ship efficiently – the ocean freight costs wiped out China's cost advantage over U.S. producers – so Haier built a factory in South Carolina to serve the U.S. market. It shipped into its U.S. factory components from low-cost, high-quality sources all over the world, such as compressors from Brazil and electrical parts from China. The problem was that U.S. producers could do the same thing – buy the best-value components from all over the world and ship them to the United States

or Mexico for assembly. So Haier gained no cost advantage in the United States or Europe for any product made there, which is why its U.S. market share in midsize refrigerators is only 3%.

If Chinese and Indian companies are to compete with established MNCs globally, they have to learn how to aggregate their knowledge about designing, innovating, and managing across borders. Even the most profitable emerging multinationals to date have not worked this out, and indeed, Chinese companies are especially challenged here because of a lack of experienced international executives. That said, there are lesser-known, focused-product companies – such as CIMC in marine shipping containers, Wanxiang in auto parts, and Pearl River Piano – that followed up success in exporting from China by acquiring and reviving foreign companies, using materials, design, and factory management know-how gained in China. Wanxiang has rolled up a number of small troubled Midwestern auto parts producers in the United States and rationalized production among them. It now has equity positions in more than 30 companies worldwide. CIMC turned around a maker of truck trailers in Indiana. Pearl River purchased a faded, up-market German piano brand and retooled it. These are unglamorous, small steps up the ladder, taken by leveraging management and operating strengths. The strategy of going abroad and seeking turnaround opportunities differentiated these companies more than their Chinese industries allowed.

Reworking the Value Chain

A growing number of emerging players are building global leadership positions in their industries by creating focused, vertical businesses. They are spotting opportunities to pull apart and reconfigure existing value chains in order to deploy capital more efficiently. Rather than dominate a well-defined industry, they concentrate their efforts on the gaps and pockets, around the edges, and across the boundaries, often collaborating with instead of competing against established multinationals. The differentiation and profit potential of these businesses varies – but again, many do offer potential for significant value that savvy companies can parlay into global leadership.



Some companies simply specialize in a limited part of the value chain and outsource the rest. That is how Bharti Airtel has built up the largest mobile-services operation in India – and the fastest-growing one in the world, in terms of subscribers – despite initially trailing better-funded competitors. Its recipe: radical outsourcing of IT services to IBM and of the development and management of its telecom network to Ericsson, Nokia, and Siemens. These changes freed up Bharti's capital, made its cost structure much more variable, and allowed the company to target pricing levels of 1.5 to 2 cents per minute, versus levels as high as 20 cents per minute in ad-

vanced markets, all of which fueled rapid market growth and penetration. Bharti has used the capabilities it concentrates on – customer care and the regulatory interface – to enter businesses such as retailing, where it is Wal-Mart's local partner.

There are manufacturing examples as well. China-based producers assemble most of the world's laptop and desktop computers, and nearly all of that work is done by Taiwanese-owned and -managed factories – for instance, Hon Hai, Quanta, and Asustek. These engineering and manufacturing specialists are contracted by Dell, Hewlett-Packard, and other multinationals. Their business model is to do assembly and test work in China; build huge scale (Hon Hai is the biggest of these specialists, with global revenues of \$51 billion and net earnings of \$2.3 billion, and a Shenzhen campus that employs 270,000 people); and stick to a narrow value-add focus, adding less than 5% of the product's total cost. These specialists also manufacture cell phones and other electronic consumer goods.

Specialization is a powerful tool. It confers a competitive advantage over local companies. For example, the transplantation of Taiwanese contract producers into China has made it more difficult for local Chinese companies to scale up and progress technically. The rise of specialists has also helped level the playing field for established multinationals competing against emerging ones. The incumbents can focus their differentiation efforts on their businesses' front end (marketing, design) and on their underlying platforms (systems, customer-connected processes) – areas where they already hold advantages. The back-door risk for established MNCs is that specialists eventually broaden their business and become

effective competitors of their customers. Acer in the PC business, for instance, started as a contract manufacturer and is now a major global brand.

Some companies have differentiated by piecing together and managing value chains across developed-world companies from all sorts of industries seeking to enter big emerging markets. Li & Fung, the world's largest contract supply-chain-management firm, manages front-end design, marketing, sales, and corporate governance in Hong Kong and production in China. Li & Fung can, for example, source product anywhere in the world for Western retailers that simply provide the brand, or it can go further and manage the brand for the client, as it does for Levi Strauss in Asia.

Management Challenges

Established MNCs and emerging local players bring different management strengths and vulnerabilities to their markets. Established MNCs work hard at coordinating actions and relieving tensions between the center and country organizations. They try out new management structures and ways of being more responsive to local customers without losing the advantages of global know-how. Their biggest short-term vulnerabilities are slower movement and higher costs – both company overhead and local operating costs – than local players have. Longer term, they face an even more dangerous set of trajectories: A survey by the Boston Consulting Group (conducted before the recent slowdown in the West) found that emerging markets accounted for 35% of the established MNCs' anticipated growth over the next five years but for only 15% of their employees and 7.5% of their top 200 managers. As if this arithmetic weren't bad enough, rapid turnover adds to the problems, as do the difficulties of freeing up senior managers from other parts of the organization to work in economies that in the foreseeable future are likely to become as important as the home market.

What management structures and mechanisms will help MNCs best navigate the converging competitive world we have been describing? P&G in particular has worked effectively on the problem of decision-making conflicts between global product groups and local (country/region) marketing and sales organizations. Its approach can be summed up as follows:

- Decision makers are clearly identified for most types of situations.
- All lines of the organization receive the same information on all aspects of the business.
- Senior people are colocated; each product group has an office in each region.
- Explicit tie-breaking rules, usually giving the global product unit the final say, prevent protracted impasses.
- In order to get promoted, an executive must have worked for both a product group and a geographical organization.

Strategic alliances are an important factor in any company's global growth. When deciding whom to partner

with and how, smart companies focus on creating value of several kinds, not just profits. Cummins, a strong player in both China and India, enters into 50/50 joint ventures with respected local manufacturers or large customers – factories that become product sources across Cummins's global sales network in 190 countries. Cummins is less interested in full management control than in finding good partners with the same values and long-term goals. Its objectives in joint venturing include a strong baseline engine demand from the partner; a company that can help implement Cummins's advanced technologies; a source of good management personnel; and strong local standing, including a network of proven suppliers.

Newer developed-world companies that do not have to contend with an organizational legacy are finding it easier to create and manage global value chains. One example is WiChorus, based in San Jose, California, and Hyderabad, India. The company wants to bring broadband access to the Indian countryside, which lacks landline telephone cables, by building simplified WiMax-based systems of transmitters and base stations for cell phones. It does its bleeding-edge upstream development work and sourcing of high-tech components in the United States, where the best engineers, suppliers, and intellectual property protection are; it carries out the downstream, more routine network engineering, sales, and customer support functions in India. Starting out as a binational corporation has spared WiChorus the logistical and cultural strains older multinationals can have in moving activities from old to new locations.

Of course, there is no magic solution to the problem of managing global enterprises. There will always be coordination issues and conflicts among product, global customer, and regional lines of the organization. And the more people you insert into the system to lubricate it, like the colocated product group people in the regions, the more coordination and communication issues you introduce. But the best MNCs continue to learn, like P&G has, that if they want to succeed beyond their usual segment strengths and if they want to defend against challengers climbing the value ladder, they need tighter-knit, faster-responding global management mechanisms and decision-making capabilities.

Newer multinationals from emerging markets tend to have a reverse profile. They have lower costs and are more fully adapted to the emerging market, and the products around which they build an early global presence are the same ones that won them local leadership. Their management structures are simpler, in part because the founder is usually still active and a powerful force in decision making. This is true of almost all new multinationals in China and India. Another key strength of many of these companies – TCS, Hon Hai, Pearl River Piano, and others – is their ability to manage very large workforces in one location, something most Western companies gave up on decades ago. They excel at organizing

workers into cells and designing standard work flows and feedback. Their overhead costs are low.

Their biggest vulnerability, compared with incumbent MNCs, is inexperience in coordination and conflict management across borders and a lack of depth in global customer and channel knowledge. A company making a narrow product line in China and exporting to a few big customers in the United States doesn't need to change its management structure much. But when it sets its sights higher – more products, more services, stronger global brand identity – it needs more cross-

overseas sales is up from less than \$1 billion to more than \$1 billion. Suddenly the company has 12 R&D centers and 12 sales branches around the world. This experience, combined with a shift in sales emphasis from telecom companies as customers, has introduced new practices into Huawei's traditional top-down management style. They include less central decision making; greater emphasis on leadership position; more overseas managers; more explicit training about Huawei's distinctive culture, lest it be lost.

Some aspiring MNCs are getting smart about how to move into the global marketplace. This often means experimenting with new management mechanisms and policies.

border coordination mechanisms and more learning ports in its organization. Chinese companies find this challenging because of the paucity of role models among older managers and the high turnover of managers in the current gold rush.

The turnover problem is a big one. As one executive in China puts it, "Chinese organizations learn fast but also can forget fast." Turnover is a significant problem in India as well, particularly in hot sectors like information technology. And as emerging players grow, they soon face the same problems established MNCs do: international coordination, diminishing usefulness of the center for delivering products or services, loss of product uniqueness, and the need to tap more pools of talent around the world.


But as we've seen, some aspiring MNCs are getting smart about how to move into the global marketplace, and this often means experimenting with new management mechanisms and policies. For example, as Indian software-services companies' U.S. and European operations take on bigger, more customized assignments, they encounter longer sales cycles, more complex customer requirements, and greater profit risks due to mispricing. So their control systems are tracking more project characteristics and more performance and risk measures than before. Because much of the actual work is done in India or elsewhere, far from the project manager at the client site, mechanisms to coordinate and relieve tension in this relationship are critical. In China, the

identification of promising young engineers and their management track. Management shapes globalization; globalization shapes management.

A relentless focus on upgrading, a willingness to experiment, radical experimentation, an outward focus, a growth mind-set that recognizes possibilities for learning from MNCs while also imitating them, tapping into their talent by hiring away key personnel and even, on occasion, poaching them – these are all enablers for the aspiring MNCs.

...

Competing for global leadership requires companies to learn to navigate in unfamiliar waters. For the emerging MNCs represent the threat to the established MNCs. For the emerging challengers, globalizing is a necessity. But the greater openness today of both developed and developing economies to foreign trade and investment, and that the best opportunities for growth in the world are increasingly available to companies of all sizes, and ongoing changes in the location of markets, the nature of global supply chains, and the emergence of new business models suggest that the conditions are ripe for aggressive global players to move outside their home markets. Industry may have been destiny thus far, but it may not remain so.



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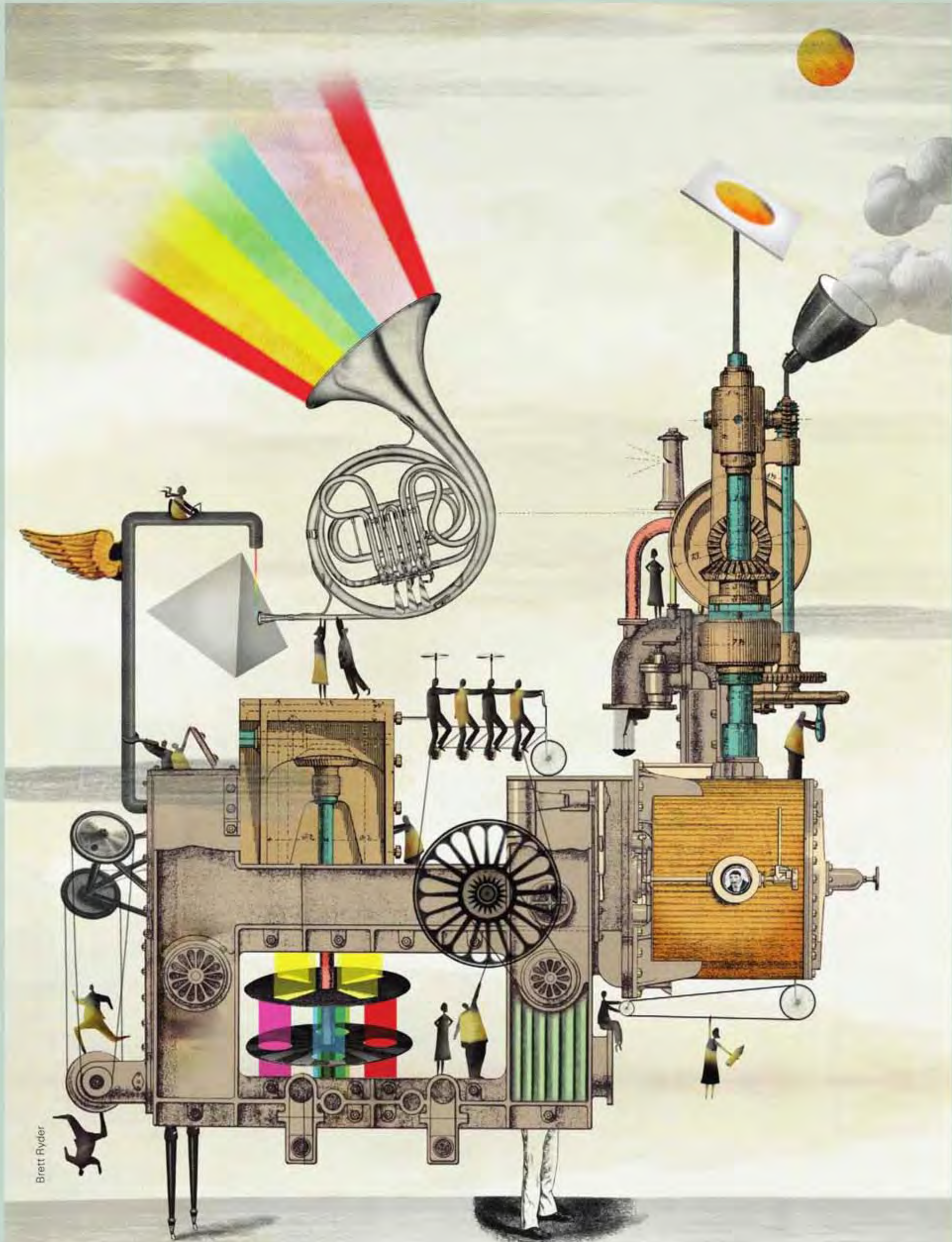
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Teaming Up to Create Innovation Enterprise Integration

Key growth imperatives succeed best when specialized teams share skills, experience, and insight across the silos. **by James I. Cash**
Michael J. Earl, and Robert Morison

I N THE CONTINUING QUEST FOR BUSINESS GROWTH, many CEOs are turning to their CIOs and IT organizations because technology is essential to two compelling sources of growth: innovation, of course, is doing new



Brett Ryder

Together, innovation and integration allow an enterprise to engage more customers and bring more goods and services to market. Successful innovation often depends on the ability to coordinate efforts across organizational boundaries because innovations reach sufficient scale and impact only when integrated into the larger operations of the corporation. Neither pursuit is optional, in good economic times or bad, because stagnation on either front can doom a business, and success in both is the best guarantee of thriving.

Companies rely on IT as a catalyst, enabler, and component of the new products, services, channels, processes, and business models, as well as the way to encourage innovators to collaborate. And with its extensive experience working at the heart of major business-change initiatives of all kinds – implementing common infrastructures, shared databases, and cross-functional and enterprise systems – IT is often the corporation's de facto center of expertise in business integration.

Our research confirms this. We had noticed several years ago that some CIOs were being asked to wear more than one executive hat. So, in 2006, with the aid of Nicholas Vitalari of nGenera, Keri Pearlson of KP Partners, and Espen Andersen of the Norwegian School of Management and other colleagues, we began investigating the roles of the contemporary IT organization in 24 major, often global, U.S. and European corporations. We talked with many of these CIOs directly, examining the additional roles they and their IT organizations were being asked to play, and discussed the business strategies and drivers behind these roles. We found that 12 of the 24 were charged with improving horizontal integration of the business, and a third were focused on their corporations' innovation and growth initiatives. A few were focused on both innovation and integration.

CEOs today are asking their CIOs and IT organizations to play bigger roles in the growth agenda by providing the tools for collaborative innovation; by participating in innovation initiatives of all kinds; by building an integrated platform of business processes, information, systems, and technology; and by sharing their experience and expertise in how to improve the "horizontal discipline" of the corporation. So even as much of the traditional work of IT has been automated, commoditized, and readily outsourced, today's innovation and integration challenges are drawing IT deeper than ever

IDEA IN BRIEF

» IT has long been a catalyst of business innovation and essential to cross-functional integration efforts, but few large corporations have systematically leveraged technology for these purposes.

» Close study of 24 U.S. and European businesses reveals a model for systematically doing just that through the formation of two IT-intensive groups for coordinating these two processes that are critical to organic growth

» A distributed innovation group (DIG) combines a company's own innovation efforts with the best of external technology to create new business variations. The enterprise integration group (EIG) folds yesterday's new variations into the operating model of the enterprise.

» The two groups help better identify, coordinate, and prioritize the most-promising projects and spread technology, tools, and best practices across the enterprise.

into the central nervous system of the corporation.

But the work involves sometimes daunting challenges because business innovation and integration have something else in common – both are still "unnatural acts" in most large corporations. Businesses are better at stifling innovation than at capitalizing on it, better at optimizing local operations than at integrating them for the good of the enterprise and its customers. The larger and more complex the organization, the stronger the status quo can be in repelling both innovation and integration.

Thus, large corporations need active, technology-enabled agencies to promote innovation and integration – to overcome obstacles, focus effort, and let the unnatural acts become more natural. Without such agencies, innovation and integration won't spread far enough or fast enough throughout a large company to keep pace with smaller, younger, more technology-based competitors to whom innovation and integration come much more naturally. Specifically, we recommend the formation of two agencies:

■ A *distributed innovation group* (DIG), which doesn't "do" innovation but rather fosters and channels it. Innovation is an inherently distributed activity, encompassing innovators across and outside the corporation. The DIG serves as the center of expertise for innovation techniques, scouts for new developments outside the company, and provides experts for internal innovation initiatives. And it deploys technologies and methods that facilitate collaboration and innovation.

■ An *enterprise integration group* (EIG), dedicated to the horizontal integration of the corporation. It picks from among competing integration projects and provides resources that enable them to succeed. It develops the architecture and management practices that make business integration easier over time. It may also manage a portfolio of integration activities and initiatives; serve as the corporation's center of expertise in process improvement, large-project management, and program and portfolio management; and provide staff and possibly leaders for major business integration initiatives.

Sometimes these groups report to the CIO; sometimes they do not. Either way, they are home to some of the corporation's most capable and experienced IT professionals, as well as many traditional IT activities that are key to each group's respective mission. Information technology has long been

a catalyst of business innovation and an essential part of the glue that enables large organizations to function coherently. However, few large corporations have systematically leveraged technology and technologists for these two purposes. In the quest for growth, they must.

Challenges of Innovation

Innovation doesn't come easily to large corporations. Many set ambitious goals to earn a significant percentage of revenue from recently introduced products, services, and channels only to find their R&D productivity actually decline. The common recipe for increasing innovation predominantly focuses on generating and vetting new ideas. But that's not the problem: Large corporations generate plenty of ideas. Too many, in fact. They well up everywhere – in interactions with customers, working with business partners, fixing operational glitches. The problem is harvesting them, allocating the company's vast resources to them, and managing their development in a coordinated and efficient way.

Nobody has a monopoly on innovation in large companies anymore. No organizational unit can be *the* innovator. What's more, too many innovations are stalled by business-as-usual resistance, and corporations cannot rely entirely on a free market of emerging ideas to overcome that resistance. They need an agency that will recognize and promote innovation, one that will convert corporate scale into an asset rather than a hindrance to innovation initiatives. That's the purpose of a distributed innovation group.

Why Form Another Innovation Group?

The DIG deploys entrepreneurial analysts to promote innovation in a variety of ways:

- Scouting for ideas with potential for the company. This involves networking, participating in brainstorming and problem-solving sessions, and working with customers to identify their needs. It also involves being on the lookout for tech-

BY CREATING two IT-intensive groups – one focused on innovation, the other on integration across functions – a business can significantly improve these interrelated growth-driving activities. Although the teams will differ in the kinds of expertise they bring to their distinct domains, they share a common emphasis on using cutting-edge tools and technology to accelerate progress and to eliminate barriers and sources of friction.

» **How do the teams make a difference?** They take an enterprise view of innovation and integration initiatives. This allows them to identify and prioritize the most-promising projects; capture and propagate best practices (and profit from mistakes); connect the dots across the silos, envisioning one project's potential to enrich another; and fund Skunk Works projects that would otherwise be orphaned for lack of sponsorship. They also inspire by publicizing success stories across the organization. And because part of both teams' agenda is to scout externally for emerging technologies and support services, they serve as de facto sources of real-time insight into proven state-of-the-art capabilities.

» **What businesses have tried this approach?** Royal Dutch Shell uses "GameChanger" teams to scout internally for innovations. The teams make seed funding available for radical, ambitious, or longer-term

ventures. At Procter & Gamble, scout teams have increased the percentage of new product ideas originating outside the company from about 15% in 2000 to 50% in 2007. GE's Corporate Initiatives Group is responsible for fostering horizontal integration across the corporation, both within and across its major business units.

» **What's the role of technology?** Innovation relies on IT for collaboration, prototyping, simulation, and analytics capabilities. As more widely dispersed inside and outside contributors are invited into the innovation process, social-networking tools become increasingly important. Integration is an area in which CIOs and the IT function have long been deeply embedded, building up solid experience in solving enterprisewide integration challenges. Indeed, the CIO might well possess the skills to lead either team.

» **What aren't the teams, and what don't they do?** They are not centralized staff functions; their members, while full-time, are dispersed across the organization. Their role is to support – not execute – innovation and integration activities. Membership on a team should not be seen as a permanent posting; people will join from, and eventually return to, operational areas. Nor are the teams designed to be large. They are nimble platoons, not fixed divisions.

nologies that have already been acquired for one (often quite narrow) purpose that might be applied for other purposes. Scouting is as much about uncovering the untapped potential of latent ideas as discovering new ones.

- Constantly scanning the external environment for emerging technologies and their applications. This means researching technology trends, working with leading-edge vendors, monitoring the experiences of early adopters, and recognizing the potential of small-scale, experimental IT applications.

- Facilitating participation in "ideagoras" – the online marketplaces for problem solving. For example, InnoCentive's

extensive network of professional and hobbyist scientists tackles and solves business problems for such companies as Eli Lilly (InnoCentive's original funder), DuPont, Boeing, and Procter & Gamble.

- Acting as a center of innovation expertise that advises business units on managing portfolios of innovation initiatives; on conducting business experiments, rapid prototyping, and iterative development; and on the use of business analytics to discover new patterns in customer behavior and potential business-performance improvements.

- Publicizing promising innovations and their progress toward implementation throughout the enterprise, sparking creativity by example. At Procter & Gamble, nascent innovations are posted in a catalog so managers can screen them for potential. Johnson & Johnson and financial services firm Skandia have long held senior management conferences to communicate innovations from one business unit to the others.

- Serving as a temporary home for developing pilots or prototypes of promising innovations that need an extra push to get the early traction they deserve. This approach can provide resources and skills not available in the business unit that came up with the idea. It also can effectively overcome typical organizational barriers, such as insufficient seed funding, reluctance to be diverted from everyday business, and lack of faith in a new idea.

It makes sense to combine this range of activities under the purview of a dedicated agency because the catalytic skills required to cultivate innovation are too scarce and expensive to duplicate throughout the enterprise.

Some of these activities may already be performed well here and there within the corporation. R&D may house a center of expertise in innovation techniques, for instance, or a business unit may routinely watch for emerging information technologies to incorporate into its particular products and services. The DIG does not replace or subsume these organizations; rather, it works with them, complementing their resources to help maximize their performance.

The DIG should be staffed with business-IT hybrids—people with sufficient depth in specific business processes to sharply focus innovation in those areas. Even though we refer to the DIG as a “group,” it is decidedly not a centralized staff function. Its members should be widely dispersed across the enterprise. But they must be full-time agents of innovation, with no other day job. And they must be networked together. Perhaps more than any other part of the business, the DIG must be adaptable, keeping its most skilled analysts deployed where the innovation action is.

To whom should the DIG report? If innovation is high enough on the corporate agenda, it should answer to the CEO. Otherwise, it might report to the R&D executive or perhaps to a business-unit or process executive committed to driving innovation across the enterprise. If there is no prior claim, the DIG can report to the CIO—an effective solution given

the role IT plays in product, service, and process innovation and how important the new generation of collaboration technologies is to enabling distributed innovation.

The Innovation Group in Action

One of the most successful efforts to distribute innovation across a major corporation was detailed by Larry Huston and Nabil Sakkab in “Connect and Develop: Inside Procter & Gamble’s New Model for Innovation” (HBR, March 2006). Among major corporations, P&G was quick to recognize the necessity and potential of distributed innovation, and the results have exceeded the company’s ambitious goals.

Connect and Develop is a program P&G initiated when, in 2000, the CEO and chief technology officer challenged R&D and the corporation at large to find new ways to innovate, with the goal of acquiring 50% of new product ideas from outside the company by 2010. Among other things, Connect and Develop involves deploying 70 “technology entrepreneurs” worldwide to scout for ideas and participate in a variety of external networks for generating innovations and solving problems. It also incubates promising candidates until they are embraced by the business units best able to commercialize them.

Connect and Develop does not replace internal R&D; it leverages R&D by expanding the reach of P&G’s innovation process and product development pipeline. Using this approach, P&G was able to raise the rate of new product ideas originating outside the company from about 15% in 2000 to 50% in 2007 (three years ahead of schedule). At the same time, R&D productivity doubled, the innovation success rate more than tripled, and the company’s innovation portfolio grew more than fourfold.

P&G is hardly alone in creating a distributed innovation strategy. We see many variations on the DIG theme. Nokia, for example, has moved from a closed, proprietary innovation approach to an open, collaborative process, incorporating not only customers, suppliers, academics, inventors, and innovation labs but also technology start-ups, the open source community, and competitors.

What a Distributed Innovation Group Does

- Scouts for new ideas and untapped potential in current technologies
- Scans the external environment for emerging technologies
- Facilitates participation in idea forums
- Acts as a center of innovation expertise
- Publicizes promising innovations
- Funds and serves as an incubator for promising innovations

Nokia now shares much of its product architecture with development partners, and its website serves as the coordination point for a wide range of collaborative projects and innovation challenges.

At Royal Dutch Shell, corporate and business unit "GameChanger" teams use seed funding to sponsor innovations – often radical, ambitious, or long-term – that would otherwise be orphaned. The program began as a course correction. In the mid-1990s, Shell was reducing layers of management and focusing R&D on only the immediate priorities of the operating companies. But in 2000, the corporation was prescient enough to charter a small group, funded with 10% of the corporate R&D/technology budget, to promote and support longer-term innovation. The approach was prompted in part by Gary Hamel's "Bringing Silicon Valley Inside" (HBR, September–October 1999). Anyone could come to the group with a research or innovation proposal to seek funds for a proof of concept. Each proven idea moved to R&D or to an operating company for second-stage financing.

Today there are GameChanger groups in Shell's Exploration & Production, Chemicals, Oil Products, IT, and Corporate units. At first they focused only on receiving, vetting, and initially funding innovative ideas. But their roles have expanded

to incorporate innovation scouting, facilitating the development of ideas, and knowledge transfer.

For any proposed innovation, the GameChanger group provides a coach who helps develop the value proposition, works with the originator to design and follow a process to prove the concept (in a lab or in the field), and contracts with suppliers or universities for additional assistance when needed. Beyond individual projects, innovation scouting includes or-

ganizing idea-generation workshops to further strategic initiatives. As a result of one such workshop, Shell moved early on to develop a biofuel that would not rely on foodstuffs as source material. A current initiative is working on ways to get at "stranded gas" (gas that's been discovered but cannot be extracted owing to its location and the economics of getting it to market). Thus, GameChanger today is proactive and interactive, not just reactive to innovation proposals. The 10% of the R&D budget that goes to GameChanger initiatives incubates as many as 30% of Shell's R&D projects.

GameChanger groups are small; E&P's is the largest, with 12 members. Each group reports to its unit's chief technology officer, and the corporate group, under the leadership of Leo Roodhart, coordinates the others. Half the people who staff these groups are very experienced senior executives who have led big departments, have traveled around Shell, know who is who, and are now looking for intrapreneurial excitement. The others are bright youngsters who rotate through GameChanger groups for about two years and then move back into the business. GameChanger, business strategy, and business scenario staffs collaborate with one another through an online innovation network.

GameChanger had an initial no-interference charter for six years. It showed results long before the charter expired and today enjoys a secure budget, senior staff support, and the reputation for driving value through innovation.

IT's Role in Fostering Innovation

Three types of IT capabilities are especially important to distributed innovation:

- Up-to-date understanding of emerging technologies and insight into trends, especially how technologies are converging to create radically new possibilities (for instance, the ability to finely target marketing efforts using a combination of

What a Distributed Innovation Group Is Not

- An R&D group dedicated to product and technological discovery
- A monopoly innovation function charged with enacting all stages of the innovation process
- A systems-development or corporate-venturing unit
- An office-bound centralized staff unit that sets policy and monitors performance



customer analytics and cell phones or PDAs with GPS capability). To stay current, group members constantly conduct research, maintain collaborative relationships with vendors and industry watchers, and observe how applications are being adopted in other businesses and industries.

- Mastery of iterative and experimental application development methods, including the creation of robust business simulations. The DIG must work with business partners to rapidly build prototypes for both proof of concept and perfecting through testing.

- Facility with information dissemination and collaboration technologies, including groupware, social-networking systems, intranet-based forums, knowledge exchanges, and Web 2.0 tools such as wikis and blogs.

In the meantime, the rest of the IT organization is not sitting idly on the sidelines. It has three key innovation duties:

- Providing technology tools and infrastructure to support innovation initiatives. Primary among these are connection and collaboration software, databases and knowledge management systems, and analytical tools. Especially valuable are information directories and repositories of application modules, which IT constructs and disseminates to innovators, who can then recombine them for new uses.

- Providing skilled technical people for all substantial innovation initiatives (if not right from the start, then as soon as projects show promise) to help optimize product design and anticipate scaling issues.

- Rapidly incorporating the new innovation's information, systems, technology, and business logic into the corporate infrastructure. This not only enables the innovation to be operationalized and achieve production scale but also makes the new business components quickly available for future innovations.

Challenges of Enterprise Integration

Customers today expect responsive product development, order fulfillment, service, and administrative backup. That requires a company's operations to be coordinated and internally transparent. Businesses know this but frequently are deterred from accomplishing it by entrenched silo mentalities, a lack of executive courage, and the difficulty and expense of large-scale integration projects.

In response to the integration pressure, many corporations have begun to "federalize" their organizational structures and operating models. Even (and sometimes especially) where business units have traditionally been highly autonomous, corporations are finding that they need to institute horizon-

tal processes and shared services to improve operational efficiency, maximize talent and expertise, and raise the level of customer service, particularly where markets overlap. By definition, this can be neither led nor facilitated from any one silo. It requires a corporate mechanism that can overcome traditional silo resistance through its mandate and capabilities. That's the work of an enterprise integration group.

How an Enterprise Integration Group Works

An EIG is charged with seeking and facilitating necessary or breakthrough business integration projects designed to radically improve the company's performance in the eyes of current and potential customers. Without such assistance, the different silos of an enterprise typically lack the will, know-how, and incentives to pursue enterprise integration initiatives. An effective EIG:

- Manages the corporate portfolio of integration activities and initiatives. This starts with cultivating relationships throughout the corporation, as well as with customers, suppliers, and business partners, to identify business integration needs and opportunities and direct appropriate resources to them. Most often, these opportunities involve addressing difficulties customers are experiencing, fixing problems that cripple operational efficiency, or identifying breakthrough propositions to improve competitive position.

- Serves as the corporation's center of expertise in process management and improvement, large-project management, and program and portfolio management. As such, it oversees process improvement activities like Six Sigma and lean manufacturing. And it disseminates experience and best practices across the enterprise.

- Contributes staff to major business integration initiatives – sometimes leaders, always coaches. These individuals bring a comprehensive, end-to-end perspective to process development and program management. They provide whatever skills may be lacking in terms of process thinking and design, organizational change requirements, job and skills retraining, new performance metrics, and necessary information systems

What an Enterprise Integration Group Does

- Manages the corporate portfolio of integration initiatives
- Serves as the corporation's center of expertise in process management and improvement
- Provides staff to major business-integration initiatives
- Is responsible for enterprise architecture
- Anticipates how operations might work in a more integrated fashion in the future

and technology infrastructure. (To determine which skills your organization might lack, see the exhibit “What Integration Capabilities Do You Need?”)

- Is responsible for enterprise architecture – the overall configuration and managed evolution of the company’s business processes, information, and technology. Enterprise architecture is a foundation for business integration, and yet it’s often managed separately by each function. The EIG is a natural home for the development, maintenance, and proactive management of a comprehensive architecture.

- Anticipates how operations might work in a more integrated fashion in the future and what management changes that might require. Failure of anticipation is the Achilles’ heel of business integration initiatives: All too often, new enterprise systems or other capabilities are installed, and *then* people begin ever so slowly to learn how to manage differently. The EIG must be in the education business, helping managers envision and prepare for the ramifications of horizontal integration.

One of the biggest challenges in forming an EIG may be gathering the right staff. You need people with a broad understanding of every piece of the business who can look at the enterprise systemically. You also need people with experience in areas like enterprise-system implementation and information architecture. You need people with pragmatic coaching skills, who can guide business partners through the design, implementation, and deployment of newly integrated processes. Finally, you need people with very strong relationship-building skills, because business integration demands more

than just a consensus about how things should work; it demands a commitment to operate differently so that the horizontal entity can become more than the sum of its parts.

If horizontal integration is a sufficiently urgent strategic imperative, the EIG should report to the CEO. More commonly, it reports to the COO (or equivalent executive). Alternatively, in companies with IT organizations that have extensive experience in successfully implementing enterprise and cross-functional

systems, the EIG might well report to the CIO. In fact, we’ve found in our research that in companies where the CIO is asked to assume an additional business role, it’s often to lead a major integration initiative, a horizontal organization such as shared services, or a management process such as business reengineering or program management.

Enterprise Integration at General Electric

Many large corporations have put components of an EIG in place, often starting with a center of expertise in process management. Merck, for instance, has a global services organization that integrates process, technology, and program management. Lean manufacturing, Six Sigma, change management, and other business improvement services are part of its responsibilities. At SunTrust, the CIO’s purview includes enterprisewide program and project management, process reengineering, Six Sigma, and horizontal integration. The

What Integration Capabilities Do You Need?

As you charter an enterprise integration group, define its work, and anticipate how it should interact with other units that operate horizontally in your company, start with this list. Ask yourself to what extent your organization has already mastered the capabilities – from governance to change leadership – that successful horizontal integration requires. Then configure your EIG to fill in the gaps.

Governance

Instituting formal structures, principles, and decision rights that enable agreement and alignment with strategy

Relationship Management

Building organizational connections and resolving the tension between local performance requirements and the need for corporate coordination

Program Management

Ensuring that complex initiatives and changes dovetail with one another through the coordination of objectives, resources, and interdependencies

Architecture

Making sure that technology infrastructure and information flows are always ready for the next stage of integration

Process Skills

Having superior talent in the disciplines of process measurement, process management, and change management

Change Leadership

Having leaders available at the team, integration project, business unit, and corporate levels

What an Enterprise Integration Group Is Not

- The implementation unit for enterprisewide processes
- A unit available for any process-redesign project
- Solely a systems development unit

Three Technology Management Imperatives

The success of distributed innovation groups and enterprise integration groups depends on more than technological skills. It demands a comprehensive IT management strategy and infrastructure consisting of three elements.

Business Platform

IT must develop, organize, and manage information and technology assets as a platform of modular, reusable components rather than as a limited-purpose information system. Such components can be modified, combined in novel ways, and put to creative uses, thus allowing business innovation to flower. Because the modules are inherently interoperable, they naturally facilitate horizontal integration. This approach is, of course, not new. Information systems and infrastructures have been migrating in this direction for years, and it's the basic architectural principle of the Internet. But slow migration is no longer viable for a business that strives to excel at innovation and integration.

Outside Services

To focus key IT staff on business integration and innovation – as well as to compensate for shortages of skilled staff – corporations must increasingly rely on external IT services. The global market for technology outsourcing has matured in capacity, quality, and flexibility. Outside providers have better access to talent, lower costs, and more incentive to remain technologically current in their areas of expertise. Thus it becomes hard to justify keeping commodity activities in-house.

Web 2.0

The corporation must embrace the latest generation of tools for flexible communication and collaboration. These tools enable people to collect, share, and productively use more sources and kinds of information – conversations, opinions, and know-how expressed in audio and video, for instance, not just text and data records. They can spur creativity and help coordinate both formal and ad hoc interactions, and hence should form much of the tool kits of both the innovation and integration groups.

“customer-enabled British Airways” (ceBA) unit was charged with process simplification, e-commerce initiatives, and channel integration at the airline. As a result of its work, these have become fully integrated into BA's regular business operations, and online selling and servicing are now mainstream channels for the carrier.

One of the most comprehensive approaches we've found is the Corporate Initiatives Group at General Electric, which demonstrates the difference an EIG can make even for a highly diversified corporation.

GE is well known for its 20-year history of success with an evolving set of process improvement methods, including its workout and Six Sigma programs. Less well known are GE's 20 years of success driving cross-business income-growth initiatives. In the 1980s, the Corporate Initiatives Group (CIG) focused on mergers and acquisitions. In the 1990s, its targets were sourcing, Six Sigma, and e-commerce. Now it's centered on the customer.

The group reports to Gary Reiner, GE's corporate CIO, and is responsible for horizontal integration within and across all of GE's major business units. All 20 members of the CIG have both operating and consulting experience; some have been hired from top consulting firms. Individuals typically stay with the CIG for one or two years and then move into an operations capacity. Current CIG members might work on such customer initiatives as net promoter scores (a measure GE uses to ensure it's meeting customer needs), lean workouts (two-week exercises aimed at reducing cycle times of various types), and sourcing and supply chain initiatives.

Here's one example of the benefits the CIG group has generated by conducting a well-focused and coordinated lean workout exercise. A GE company was providing private-label financing for retailers. It took 63 days from the time the contract was signed until the retailer was able to let a customer finance a purchase. This delay was expensive. After the CIG conducted a series of six lean workouts, the company was able to reduce that time to one day. The company then launched a marketing campaign touting its newly acquired quick-turnaround ability, which it successfully used to drive new business.

The CIG has also used lean workouts to improve internal processes. As an example, GE reduced the cycle time of the hiring process – from identifying a candidate to putting him or her to work – by 70%, from 102 days to 30.

The CIG also shares best practices throughout the corporation, especially those that involve accelerating growth, reducing waste, or improving cross-functional, customer-facing, and innovation processes. And it is a driving force behind the consolidation of various business units' suppliers. The CIG works closely with business-unit IT organizations and with the other two corporate units – shared applications and shared infrastructure – that report to Reiner. At GE, IT does more than provide technology and services; it helps drive corporate

initiatives through the talent of the CIG staff and the allocation of IT resources. Its policy is to apply technology only *after* other improvements have been made.

IT's Role in Integration

IT organizations almost invariably have much more experience with enterprise integration than with distributed innovation. Implementing common infrastructure, shared databases, and cross-functional and enterprise systems requires IT organizations to work across the corporation on a regular basis in

information, they're motivated to provide good data from the start.

- Experience with program management – the planning, coordination, and measurement of the many projects and activities involved in a multidimensional change initiative. Crucial to success are cross-organizational program governance mechanisms that contain built-in conflict resolution processes.

- A talent for relationship management – the combination of business knowledge, technological insight, and interpersonal and influence skills needed to open people's eyes to

Often the most challenging work IT organizations do is in support of integration. But they can and should do more.

a way that other groups rarely do. IT people have intimate knowledge of the workings of the company, including the idiosyncrasies and hidden interdependencies between processes and data. Their work requires them to take a systemic view of business-information and process flows. As one CIO told us, "The executive team knows how business integration is supposed to work, but IT sees the detail level and can leverage that understanding."

Many of the most capable and experienced business-technology hybrids in IT are probably already working on process and information integration initiatives. Some of them will migrate to, and perhaps form the kernel of, the EIG. Six sets of skills are central to the work of an EIG. The first five are often found in IT organizations. The sixth is rarer – and needs to be cherished and nurtured.

- Familiarity with the concepts and methods of business process design and improvement. Process and systems thinking are essential here, including recognizing all the diverse and sometimes conflicting interests that enterprise integration has to overcome.

- Experience with cross-functional systems implementation, including the associated education, training, piloting, and other activities necessary for ambitious business-change projects to succeed.

- Competence in analyzing architecture – in particular, recognizing how current IT infrastructures may have to change to facilitate enterprise integration. This includes understanding the potential and limitations of ERP systems already in use and what it takes to keep the company's technology architecture one step ahead of the business's needs for further integration.

- Expertise in information management – because very often the first step in coordinating business activities is rationalizing their data. When managers in different units realize that they can benefit from a larger pool of common, consistent

the possibilities and benefits of horizontal integration and to enlist their commitment to making integration happen.

The IT organizations in most large businesses, including both corporate and business unit IT groups, are probably already deeply involved in executing business integration projects and developing and maintaining the shared information, applications, and technology infrastructure upon which these initiatives depend. Often the most challenging work IT organizations do – with enterprise, supplier-integration, and customer-facing systems – is in support of horizontal integration across the business and, increasingly, beyond its boundaries. But they can and should do more. (See the sidebar "Three Technology Management Imperatives.")

Innovation Meets Integration


Distributed innovation and enterprise integration groups are similar in important ways. In their multifaceted roles, each is a collection of catalysts. Neither group offers direct solutions, but each provides leadership through successful relationships, effective communication, and targeted expertise. Networking is an essential activity for both: In equal measure, DIG and EIG need to connect and build relationships with internal change agents and with external partners and stakeholders (especially customers). And, ultimately, both groups need to focus on adding customer value – the fundamental test of success or failure in all of their initiatives.

Most members of both groups must be trilingual – fluent in the language of business, able to understand and translate the language of IT, and at ease with the natural language of sociability, which is indispensable to relationship management.

They also need to know the organization – how it works, who the movers and shakers are, and whom to ask for help in finding solutions. These are rare beings, and competition for their services will be high. Hence, neither the DIG nor the EIG can be very large – nor do they need to be, even in a corporation the size of General Electric. Ideally, the members of these two groups will be drawn from the business and after a few years will return to operational roles, having benefited from the extraordinary developmental experience of DIG or EIG work in between.

In both cases, guaranteed funding makes a difference. The DIG will require some level of seed funding to nurture the candidate innovations. The EIG may need a “financier of last resort” (such as the CEO) to invest in integration initiatives to which the business silos are not fully committed. Both groups, of course, will be established and flourish only if the corporate climate is conducive. Funding demonstrates commitment. So does a CEO who believes in and advocates both innovation and integration and supports the groups in drawing the talent they need.

Despite their commonalities, the two units operate in different spheres. The DIG enables the corporation to devise

new ways to operate; the EIG enables the corporation to coordinate its operations to improve performance. The DIG creates new business variations; the EIG takes yesterday’s new variations and folds them into the operating model of the enterprise. The DIG injects novelty and variety; the EIG battles against fragmentation. Thus, the DIG and EIG have different missions, and the personalities of their staffs and leaders will reflect their respective orientations. But together they enable the corporation to evolve. And the company pursuing growth must excel at both. 

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"Well, whenever I lose my sense of identity, I Google myself."

Chris Wildt



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What Is a *free* Customer Worth?

Armchair calculations of nonpaying customers' value can lead to flawed strategies.

by Sunil Gupta and Carl F. Mela

CUSTOMERS WHO PAY little or nothing and are subsidized by another set of customers are essential to a vast array of businesses, including shopping malls, real estate brokerages, information technology providers, auction houses, print and online media, and employment and dating services. According to one estimate, this business model accounts for a majority of the revenues of 60 of the world's 100 largest companies.¹ With the explosion in the number of free services offered on the internet, the prevalence of so-called two-sided markets is likely to grow.



The rationale for this approach, of course, is that by charging one set of customers little or nothing, the business will attract the critical mass of them required to draw in large numbers of another set of customers, and the income generated by the latter will handsomely exceed the cost of acquiring and serving the former. The high-stakes challenge is figuring out the true value of each “free” customer. Although executives know that free customers matter, they tend to underestimate their significance for two reasons: First, managers naturally focus more on customers who generate the bulk of revenues, and second, they lack a rigorous method for calculating the lifetime value of free customers. In this article we will offer a high-level description of a model we’ve developed for obtaining this information and explain how to use it.

Knowing the lifetime value of free customers is crucial to determining the following:

The optimal way to grow – how much should a company spend at various points in time to acquire and retain free or heavily subsidized customers?

The real value of the enterprise – how much should investors or acquirers pay for all or part of a business with such customers?

The best organizational design – how should the business and its incentive systems be structured to encourage the units responsible for the free and the paying customers to work together?

If you answer these questions wrong, your company may go out of business. But traditional customer-valuation models are of no help. For one thing, they focus exclusively on paying customers (estimating the net present value of their purchases minus the cost of marketing to them) and ignore the nonpaying ones. Additionally, although some approaches factor in *direct* network effects, where a buyer attracts more buyers or a seller attracts more sellers (see “How Valuable Is Word of Mouth?” HBR October 2007), we have yet to come across any that take into account *indirect* network effects, or how a greater number of buyers or users of a service or product attracts more sellers and vice versa. Our valuation model considers both kinds of network effects. It draws from our extensive experience helping firms develop predictive models of demand and was tested and refined during work for a major auction house.

IDEA IN BRIEF

» Free customers who are subsidized by paying customers are essential to many businesses – such as media companies, employment and dating services, and even IT providers. But what are free customers worth, and how much should firms invest in them?

» Companies need to take into account **direct network effects**, or how buyers attract more buyers or sellers attract more sellers, and **indirect network effects** – how buyers attract more sellers and vice versa. When these effects are strong, the lifetime value of each customer increases dramatically.

» Gupta and Mela have devised a customer-valuation model that incorporates these network effects and pinpoints the true value of free customers – which helps executives make better decisions about how to grow the business.

Deciphering Network Effects

Our model considers the precise role that each customer segment plays in growing the business and creating value. It takes into account how the number of free customers influences the number of paying customers and vice versa, and how both are affected by the firm’s marketing efforts. This allows us to deduce the impact that the addition of each customer (whether paying or not) has on the profits of the firm over the long term. Essentially, the lifetime value of a free customer is his or her incremental effect on the net present value of cash flows from the population of fee customers. It depends on the degree to which a free customer attracts other fee and free customers and the ripple effects those customers have on still other customers. When these network effects are large, payments flow to the firm, and the lifetime value of the customer increases.

Direct network effects (how a buyer attracts more buyers or a seller more sellers) can be positive or negative. For example, they are positive for video game services such as Xbox Live: The

more users who are online playing Xbox Live, the more additional users are likely to join. In contrast, direct network effects may be negative in employment sites or malls. Employers may not want too much competition from other firms for good job candidates, or stores in a mall may not want a lot of direct competition for traffic. When direct network effects are strong and negative, a firm faces the challenge of building a critical mass of players on the side in question. Many of the online exchanges launched during the dot-com boom failed because firms did not want to participate in an exchange with their competitors.

Indirect network effects, between buyers and sellers, can be positive or negative as well. They’re positive in the video game industry, where a larger number of people who own a particular console will attract more developers to create new games for that console, increasing the variety of games available and attracting more users. Similarly, auction houses and real estate agencies see positive effects if more buyers attract more sellers and vice versa. The same is generally true for employment and dating services. When indirect network effects are strong and positive, the firm benefits tremendously from the snowball effect and may eventually become the sole industry standard. Recently, Sony experienced this when its Blu-ray format for high-definition DVDs achieved a critical mass of adherents

among consumers, retailers, and studios, which caused Toshiba to exit the market. In such situations, free customers in the early stages of the business are crucial, and the firm should be willing to invest a lot of resources to get them on board.

In the media industry both positive and negative indirect effects are operating. Advertisers are attracted to large numbers of viewers or readers (a positive effect) but increasing the amount of advertising relative to programming or editorial content may drive away viewers or readers (a negative effect). The television industry manages this by either limiting the amount of advertising airtime for each hour of programming or, in the case of premium channels such as HBO, eliminating it and charging higher subscription fees. In television the amount of time is fixed, of course, but newspapers have the option to add pages to accommodate more advertising. However, if the effect of ads on readers is strong and negative, there is a limit to the number the paper can carry.

Clearly, these media players can raise their prices in response to increasing demand from advertisers. The challenge is to find the right balance between price and number of ads. That balance cannot be achieved without a clear understanding of the nature and magnitude of the network effects between the two sets of customers.

Building a Model for Auctions.com

Our work for a major international online auction house in 2006 illustrates how to apply our model. Given the proprietary nature of the project, we can't identify the firm, which we'll call Auctions.com, and we have disguised its data and sales history here. This auction house had been in operation for five years and had slowly but steadily increased the attention and resources it was devoting to sellers – after all, they were the paying customers. Although the auction house was a leading player in the market and growing rapidly, several competitors were challenging its position. As a result, its managers worried that they might not be spending enough to woo new buyers and maintain market leadership. Although the managers recognized the value of buyers, they had no way to quantify it.

BY UNDERSTANDING THE NETWORK EFFECTS at play in their businesses, companies serving “free” and “fee” customers can figure out the real lifetime value of both and use that knowledge to maximize growth and profits.

EXAMPLE Auctions.com, a disguised online auction house, had steadily increased the resources it was devoting to sellers – its paying customers. Although the company was growing rapidly, several competitors were trying to challenge it. Its managers worried that they might not be spending enough to woo new buyers (its free customers) and maintain market leadership. The managers recognized the value of buyers but had no way to quantify it.

Auctions.com built a model that calculated the total long-term impact that each additional buyer had on the firm's profits. It took into account the degree to which each new buyer attracted other buyers and new sellers, and the ripple effects those customers in turn had. The auction house then used the model in the following ways:

» **To determine how much to spend on marketing to buyers.** The model revealed that additional buyers had a powerful effect on the

firm's ability to attract paying sellers, especially during its early years. This made buyers worth much more than Auctions.com had anticipated. Partly as a result of this study, it increased its advertising to buyers.

» **To test different pricing strategies.** The firm discovered that a penetration strategy of charging sellers a low fee early on would be most effective because it would attract many more sellers, who, in turn, would attract many more buyers. The firm also found that sellers became less price sensitive over time and that it could raise prices in its later stages of growth.

» **To cater more to buyers.** Auctions.com focused more people and resources on understanding the buyers' behavior and improving their experience. That effort led to the creation of an improved search engine for shoppers and service policies like delisting sellers with poor buyer ratings.

» **To make a case to Wall Street.** The company used the network model to forecast the growth of its buyers and sellers and estimate their combined value. That number was in line with the company's market value and so could help address any concerns among investors that its high-flying stock price was unwarranted.

The buyers paid nothing to the auction house for bidding or for winning an auction. Sellers paid both a per-item fee and a commission, which are combined for purposes of this example into a single “take rate,” or blended price. However, the prices were based on a model intended to maximize short-term revenue; it did not rigorously consider network effects and their long-term impact on the firm's profitability. It employed faulty rules of thumb like those described in the sidebar “Inadequate Remedies.” Auctions.com's managers wanted to take a more sophisticated approach to figuring out how much to spend on marketing to buyers and what prices to charge sellers. We helped the firm resolve those issues by taking it through the steps outlined next.



*In some situations, acquiring
free customers in the early stages
of a business is crucial.*

1. Auctions.com collected historical data on the numbers of its sellers and buyers, the growth rates of those groups, the prices it charged sellers, and the marketing expenses it incurred to attract sellers and buyers.

2. Using those data, Auctions.com examined how the growth in the number of both sellers and buyers was affected by (a) the firm's marketing strategies – advertising, pricing, and so on; (b) direct network effects; and (c) indirect network effects. We devised two related equations that captured those relationships: one for the growth in the number of buyers and the other for the growth in the number of sellers. The two equations formed the core of our *network model*, which was used to determine the magnitude of the network and marketing effects. (For details on the specific equations in the model, see “The Value of a ‘Free’ Customer,” by Sunil Gupta, Carl F. Mela, and Jose M. Vidal-Sanz, Harvard Business School working paper, 2008, <http://www.hbs.edu/research/pdf/07-035.pdf>.)

Auctions.com used the model to project the growth in sellers and buyers and obtained the results depicted in the chart

“The Growth Patterns of Buyers and Sellers.” (Again, the actual figures are disguised.) The results suggested that the growth of both groups would be extremely rapid until the company's 11th year but then would slow down, and that the firm would most likely reach a saturation point of about 10 million buyers and 2 million sellers in about 150 months, or 12 to 13 years.

The model revealed that the direct network effects among both sets of customers were positive, but they were stronger among buyers than among sellers. The indirect network effects were also positive: More buyers made the site more attractive to potential sellers and vice versa. Finally, the effect of buyers on sellers was greater than the other way around – in other words, a larger pool of buyers was a more powerful magnet for potential sellers than the reverse. This sizable indirect effect of buyers made them especially valuable to the firm, a point we consider next.

3. Auctions.com then assessed the monetary value of acquiring a new free customer at different points in time. Each

additional buyer, the model showed, would have the ripple effect of bringing in more buyers and sellers. By multiplying the resulting growth in sellers by the fees they would pay, netting out marketing expense, and discounting the remainder to present value, Auctions.com could assess the corresponding increase in firm profits added by each buyer.

The chart "How the Value of a Newly Acquired Buyer Changes Over Time" shows that a bidder acquired early in the life of the company, when he or she was critical to starting the virtuous cycle of buyers attracting sellers and vice versa, was worth about \$2,500. However, this value decreased over time. For example, a bidder acquired in month 50 was worth about \$1,360, and one acquired later, in month 100, was worth just a couple hundred dollars. These estimates made the firm's managers realize that buyers were worth much more than they'd anticipated, and helped them decide how much to spend to acquire buyers at different stages of the firm's life.

4. Auctions.com was unclear about what would be the best pricing strategy. Was it a *skimming strategy* of charging a high fee to sellers during its early-growth stage to maximize short-term revenues, and then lowering its fee in later periods to ward off competing products and counter slowing demand? Was it a *penetration strategy* of charging a low fee to its early paying customers to attract more of them, and then raising its rates over time? Or was it a *constant strategy*, charging the same fee to all sellers, regardless of when they came on board? To address this question, Auctions.com used our network model to simulate the effect of the different price strategies on profits. (In our work we actually calculated all the possible pricing paths, applying a tool called dynamic optimization, which uses powerful algorithms.) To make the scenarios comparable, Auctions.com made sure that the average price over the 100 months of analysis was exactly the same. The chart "The Effect of Pricing Strategies on Profits" shows the simulation results for the total profits in the three scenarios.

This graph clearly indicates that the penetration pricing strategy increases profits the most. This is because a low price in the initial period attracts many more sellers, who in turn attract more buyers. At least partly because sellers had become less price sensitive over time, the firm raised its prices.

The analysis of the results also helped Auctions.com with three other critical tasks:

■ **Strengthening its marketing operations.** Historically, Auctions.com had organized its marketing activities by the product category of the goods listed for sale. Armed with new insights about buyer value, the company hired more people to focus on the bidder's experience and attract and retain more buyers. In addition, the firm's market research team allocated more resources to understanding buyer behavior and analyzed customer interactions over several years instead of one (for example, which buyers tended to buy from which sellers and for how long).

Inadequate Remedies

Companies employ a variety of crude approaches to place a value on free or heavily subsidized customers. Because these techniques do not rigorously quantify the impact of network effects, their valuations are wild guesses.

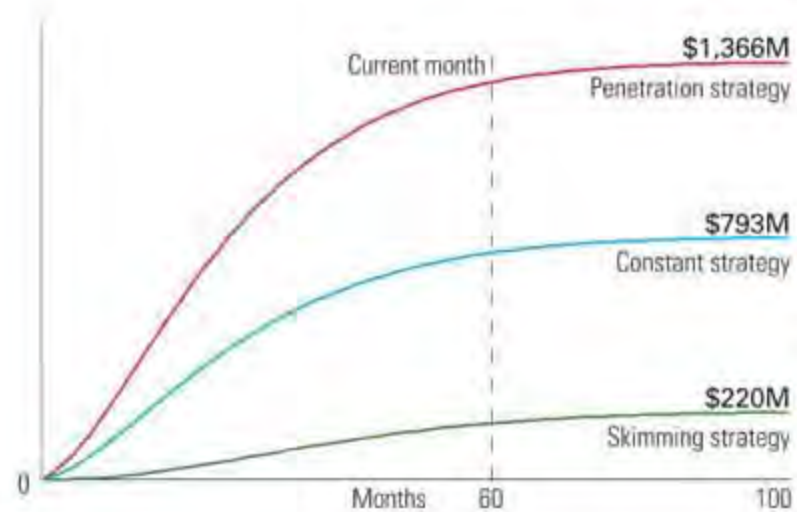
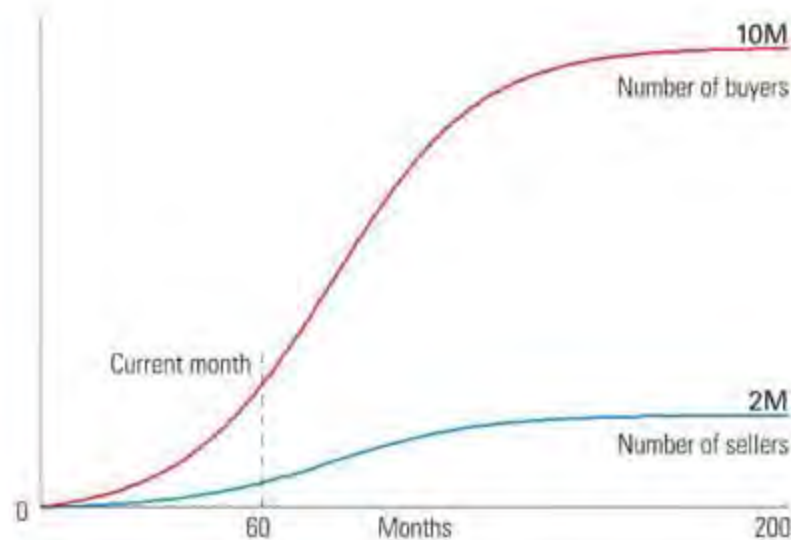
One simple approach apportions the prior period's profits equally among free and paying customers. This method ignores the relative size of the two groups as well as the degree of influence each has on the other. Imagine a real estate brokerage that sells high-end properties and has many buyers but few properties, which limits its ability to attract more buyers. In this context, a new listing might be worth more than a new buyer. If the firm had many listings and few customers, however, an additional customer might be worth more than an additional listing.

Another approach assigns profits according to the proportion of buyers to sellers. For example, if there are five buyers for every seller, then each seller is assumed to be five times as valuable as a buyer. This method can grossly miscalculate the value of buyers and sellers because it ignores network effects and the changing value of buyers and sellers over time.

The best of the common approaches is one employed by publications whose subsidized customers (subscribers) pay something. In valuing a subscriber, these com-

panies typically take into account both subscription fees and advertising revenue per reader. For example, a newspaper with an advertising rate of \$41 per thousand readers may infer that the value of a reader is 4.1 cents per ad plus the subscription fee. While this is a reasonable approach, it, too, ignores the rippling impact that readers' referrals can have on circulation and ad revenues.

In markets where network effects are not strong, such simple approaches may suffice. Yet even mature businesses like newspapers can find themselves subject to much stronger network effects as their markets evolve. Executives of some papers are grappling with the issue of whether to charge subscription fees to their online readers. In September 2007, the *New York Times* dropped its program that required users to pay to access its columns and archives. In October 2007, the *Financial Times* followed suit by allowing users free access to 30 articles a month. After acquiring the *Wall Street Journal* in December 2007, Rupert Murdoch suggested that he might eliminate the then \$99 annual fee for subscribing to the paper's online edition in the hope of increasing the number of daily readers from 1 million to 10 million or more. In all these cases, the idea is that increased ad revenue will more than make up for the loss in subscription fees.



The Network Model Gave Auctions.com Three Vital Pieces of Information

The Growth Patterns of Buyers and Sellers

Auctions.com collected historical data on the growth of its buyers (its free customers) and sellers (its paying customers) and built a model projecting each group's future growth. It saw that the growth of both would be rapid at first but would slow down, approaching saturation at about 150 months.

How the Value of a Newly Acquired Buyer Changes Over Time

The network model showed that buyers acquired early in the life of the company were extremely valuable because of their ripple effect of bringing in more buyers and sellers. As the business matured, however, the network effect of each new buyer – and the amount of incremental profit that buyer contributed – would decrease.

The Effect of Pricing Strategies on Profits

The model also helped Auctions.com set a pricing strategy for sellers. It projected the effects of a skimming strategy (initially charging high fees to increase profit and then lowering them to ward off competition), a penetration strategy (initially charging low fees to attract many customers and then raising prices), and a constant strategy (charging the same fees throughout). A penetration strategy, the company saw, clearly increased profits the most.

■ **Catering more to buyers.** The deeper knowledge of buyer behavior, in turn, led the company to make a number of changes. It increased its expenditures on advertising aimed at buyers. Auctions.com also created a new search engine that made it easier for shoppers to find the products they desired on the site. And it adopted new service policies that improved the buying experience, including tougher rules on delisting sellers with low ratings from buyers.


■ **Making its case to investors.** Our research had shown that the estimated lifetime value of the forecasted number of buyers and sellers is, in most instances, closely aligned with a company's market value. That was true for the auction house, which gave its managers ammunition to address any of Wall Street's concerns that its high-flying stock price was unwarranted.

Since many of these changes were implemented only recently, it's still too early to pronounce them a success, but the early results are promising.

...

Understanding customer value in networked settings is a new and exciting frontier. We have taken a first crack at the problem, but more work remains to be done. For example, our model requires at least four to five years of historical sales data to assess the value of a free customer. So it would not

help start-up ventures or firms in the very early phase of their growth. In addition, our model can be used only in companies that have two sets of customers. Many platform businesses – including social networks such as Facebook, computer operating systems such as Windows, and media companies such as television networks (which deal with content providers, advertisers, and viewers) – have three or more sets of players. Quantifying the value of those relationships would require more sophisticated models.

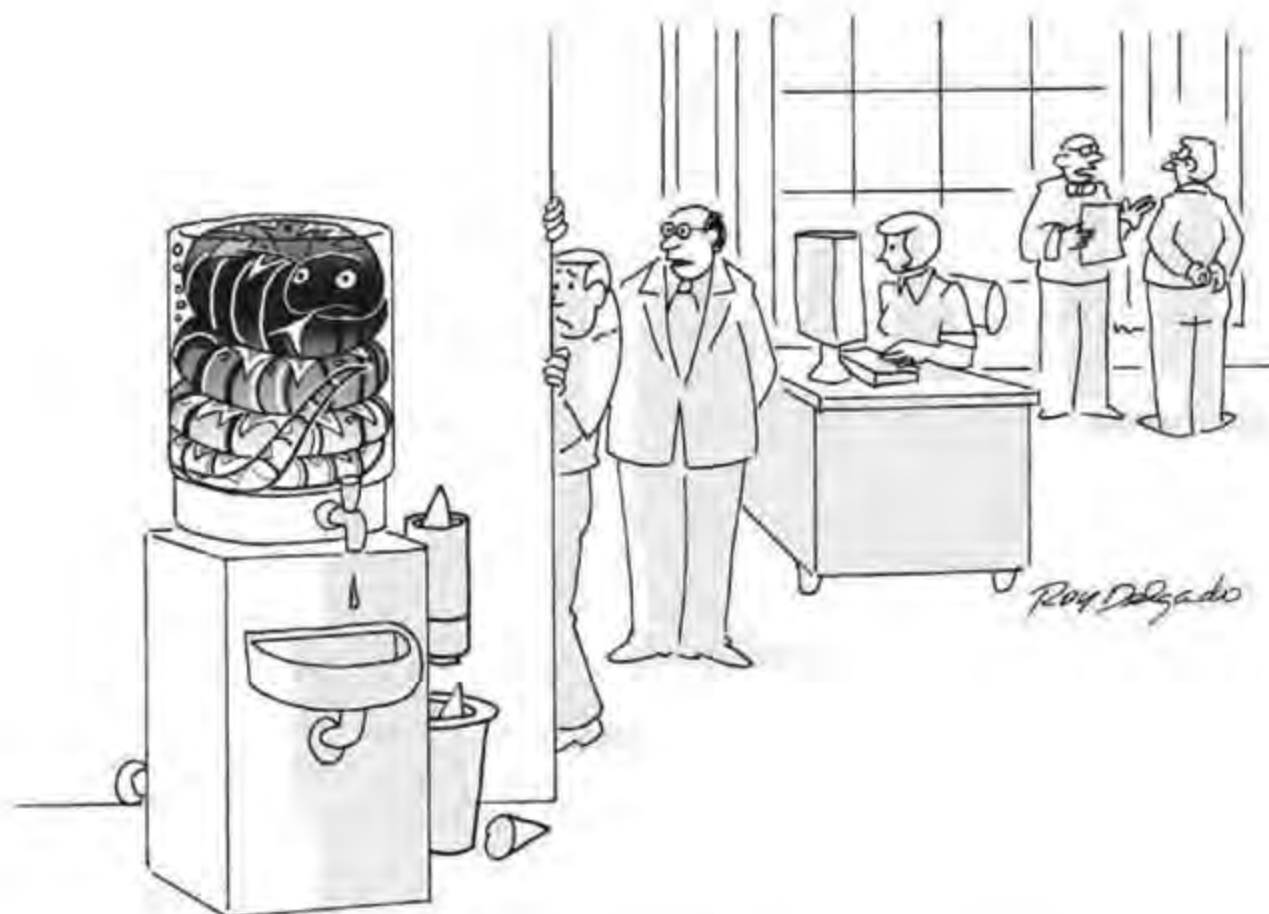
While our model is not a panacea, it is an important step in understanding the value of free customers. If properly understood, the free customer can be a powerful weapon. 

1. Thomas Eisenmann, "Managing Networked Businesses," Harvard Business School Note (Harvard University, 2007).

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"You laugh, but you don't see people hanging around, do you?"

Biotechnology: Finding Solutions to Global Problems



by Sherree DeCovny

Biotechnology companies have made their mark in a variety of areas including medicine, agriculture and energy, and are reporting higher revenue growth and stronger pipelines than ever before. But the global credit crisis, now in its second year, will likely have an impact on funding. It will be more important than ever for those in the healthcare sector to partner with large pharmaceutical companies that can support the research and development of new drugs, treatments and devices to combat various diseases. Meanwhile, firms in the agriculture and energy sector will continue to rely on venture capital to support the development of products and technologies that counter the effects of global warming.

According to Ernst & Young, the global biotechnology industry achieved record levels in financing and deal making in 2007. E&Y's report "Beyond Borders: Global Biotechnology Report 2008" stated that companies in the Americas and Europe raised more than \$29.9 billion—a new high, excluding the outlier genomics bubble year of 2000. Venture financing reached an all-time high in 2007 with investment totaling about \$7.5 billion, fueled by a record total of \$5.5 billion in the United States and 72 percent growth in Canada. Global public biotechnology company revenue rose by 8 percent in 2007, crossing the \$80 billion threshold for the first time.

Combating HIV/AIDS and Autoimmune Disorders

The HIV/AIDS pandemic continues to be a major threat to world health. Statistics from the International AIDS Vaccine Initiative (IAVI) show that in 2007, 33.2 million people worldwide were living with HIV; about 2.5 million people became newly infected with HIV; and an estimated 2.1 million lost their lives to AIDS.

Biopharmaceutical firms are trying to find ways to combat this dreadful disease, which to date has killed 25 million people. Significant strides have been made in developing and delivering oral medications to keep the viral load down to a level where

it does not manifest into AIDS. Many people who use them can extend their lives for years, but these medications are expensive; it can cost up to \$50,000 a year to keep an AIDS patient alive. And who foots the bill—the individual, insurance company, government or the World Health Organization—depends on where that person lives.

The financial impact of HIV/AIDS on individuals and countries is staggering. "If you're a third-world African country dealing with a significant portion of your population who are combating AIDS and all of its effects, it just drags down the whole medical care system," says Bob McNally, president and CEO of GeoVax Labs in Atlanta, Ga. "That means there's less to go around to treat other diseases."

Currently, there are about 30 clinical trials with HIV vaccine candidates worldwide. GeoVax Labs, for example, is developing a preventative vaccine that can be used to protect healthcare workers who are at risk, and to protect the uninfected population from coming down with the disease. It is also working on a therapeutic vaccine for infected people who are on oral medications. The objective is to reduce the amount of medication that someone would be required to take, therefore reducing the financial burden.

Having been through safety trials, a Phase II clinical trial is scheduled for the fourth quarter of 2008. The company also is planning to conduct a therapeutic trial in 2009. This work, which takes 18 months to two years to complete, is being funded through the U.S. government's vaccine trials network. If the vaccines are approved, GeoVax Labs intends to out-license the manufacturing technology to major vaccine production companies and sell distribution rights to key companies in several global markets.

Another issue is the knock-on effect of other companies' previous technical failures. Last year, a Merck trial in hundreds of patients was halted because the vaccine was found to be not efficacious. "The political fallout from it is that when you have a vaccine trials network that's paying for things, there's a lot of debate within those networks as to how should we move forward," says McNally.

It is uncertain whether larger trials will be allowed to proceed or whether the research will go ahead with smaller trials until there has been a technical breakthrough. "The problem with smaller trials is that companies cannot move as fast as they would like to test the product. "The only way you can prove to somebody there's a technical

breakthrough is by getting it into at-risk patients and measuring both T-cell and antibody response," says McNally. "So we're forced to do some of the smaller trials at the moment."

Growth in Orphan Drugs

About 25 million Americans suffer from orphan diseases—those that affect fewer than 200,000 people. Until the 1980s, it usually was not commercially viable for pharmaceutical companies to put research and development resources into finding ways to treat and cure these ailments. But when the Orphan Drug Act was signed in 1983, companies had access to a series of incentives including New Drug Application fee waivers, tax credits and grant funding for

clinical research as well as marketing exclusivity for the end products. The Act was amended in 1985 to include biological drugs, and to a large extent, this was the catalyst for growth of the biotechnology industry.

Since then, biotechnology companies such as Genentech have been at the forefront of developing orphan drugs for rare diseases. Genentech makes Tracleer tablets to improve quality of life in patients with a rare but fatal lung disorder called pulmonary arterial hypertension (PAH).

Genzyme is another major player in this area, having developed some orphan drugs to treat Gaucher Disease. The company's Ceredase won FDA approval in 1991, and Cerezyme is the company's biggest selling drug.

Many orphan drugs are used to treat rare forms of cancer, including Gleevec, Novartis' blockbuster targeted therapy for chronic myeloid leukemia (CML). Among the 80 products listed as receiving orphan designations in 2007, more than 30 were designated to treat cancer. Among them is Alfacell Corporation's Onconase, which is used to treat malignant mesothelioma.

Cleaner-Burning, Renewable Fuels

Global warming is one of the most important issues facing the world today. It is more critical than ever to utilize cleaner-burning renewable biofuels to support our energy needs while countering the effects of greenhouse gases. Biofuels are solid, liquid or gas fuels derived from biological, renewable sources called biomass. Some examples of biomass that can be used to produce biofuels include sugar crops, corn grains, grain byproducts, oil seed crops, trees and grasses.



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IN A SERIES OF THOUSANDS

Neogen technology is making sure food is safe for the world. And Michigan is putting the world within its reach.



Michigan-based Neogen is a shining star on the global biotech scene. Repeatedly named one of the 200 Best Small Companies in America by *Forbes* magazine, Neogen is setting a new standard for technology to help ensure the safety of our food. For Neogen, Michigan stood out among all other states as a hot spot for talent in the growing biotech industry. Not only did it have world-class research universities and a highly skilled scientific community to offer, the Michigan Economic Development CorporationSM provided financial support to bolster Neogen's growth and success.

If you want to put your biotech company on the map, follow the map to Michigan. In addition to offering a wealth of skilled talent, technology clusters and economic incentives, Michigan is also a hub for art, entertainment and recreation. So you'll love to live and work here year-round. Visit MichiganAdvantage.org to learn more. Because wherever in the world you compete, Michigan can give you the Upper Hand.

Jim Herbert
Chairman and CEO
Neogen

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To this end, Englewood, Co.-based Gevo is developing the next generation of biofuels, specifically isobutenol and butanol, which will provide a sustainable path to the replacement of petrochemicals like gasoline, diesel and jet fuel.

Isobutenol as an oxygenate blend stock has a low vapor pressure and higher energy so it is similar to the hydrocarbons. It has a high octane level, and it does not absorb water. That means it can be put in the pipeline, and it is compatible with industry infrastructure.

"Isobutenols don't compete with ethanol as an oxygenate," explains Pat Gruber, CEO of Gevo. "They have the properties of hydrocarbons yet they're clean burning, so they can be used as a general blend stock."

He also points out that this blend stock is a legitimate source of competitively priced gasoline made in the United States. Another benefit is that it can be produced without compromising food production.

Hydrocarbon gasoline is made by fermenting sugar to make an intermediate product, which is then applied with chemicals to turn it into hydrocarbon. Hydrocarbon gasoline serves the same purpose as its petroleum equivalent, but it is made from renewable resources.

In addition to being relatively cheap to produce, bio jet fuel has a lower freeze point than Jet A-1, a commonly used unleaded/paraffin (kerosene) oil-based fuel. It also has a higher flash point, which allows it to better cope with the heat and stresses of high-speed supersonic flight.

Venture capitalist firms including the Virgin Green Fund, Khosla Ventures and Malaysian Life Sciences Capital Fund (MLSCF) back Gevo's research and development. The company's goal is to be commercial in 2011; so far, it is ahead of schedule.

Biotech Centers of Excellence

It costs more than \$1 billion and takes over a decade of research to develop a new biotechnology product, and many companies rely on local and regional government incentives to turn their dream into reality. The incentives some regions are using to attract biotechnology companies are a key indicator of the industry's strength and promise.

For instance, in 1999 the Michigan legislature made a 20-year, \$1 billion commitment to grow the life sciences industry in that state. Since then, Michigan has been making investments to expand its infrastructure to support the

industry. Its efforts are complemented by Michigan's 21st Century Jobs Fund, which aims to diversify the economy and create high-wage, high-skilled jobs.

The Michigan Life Sciences Pipeline is one of the initiatives supported by the 21st Century Jobs Fund.

Every year, companies compete for convertible, low-interest-rate loans that feature deferred payments so they can get their product to market before having to start repaying the loan. Some \$35 million was distributed among several companies in 2008 alone.

Today, hundreds of life sciences companies in Michigan are involved in an array of activities, from producing pharmaceuticals and traditional medical devices to biotech drug discovery, energy and diagnostics. Michigan is home to established

companies such as Kalamazoo-based Stryker Corporation, a major medical device manufacturer.

The devastation of Michigan's automotive industry has left a glut of talented electrical engineers, mechanical engineers, material scientists and software engineers. This pool of skilled labor can be used to create parts for health-care machines and medical devices ranging from IV pumps to dialysis machines. Delphi Corporation in Troy and Creative Technology Services in Canton started out manufacturing automotive components, but both firms have now diversified into manufacturing medical devices.

"Medical devices are never very high volume, so it's not worth it to manufacture them overseas," says Christophe Sevrain, CEO of CJPS Enterprises, a consultancy helping Michigan diversify into new markets. "If you're not going to go overseas and you're looking for high-quality, low-cost manufacturing, Michigan is your best bet."

Sevrain also points out that some of the best healthcare facilities in the country are located in Michigan, and biotechnology companies have an opportunity to test their products and run clinical studies in those institutions.

Clearly biotechnology is an extremely exciting industry that is bringing vast benefits to consumers. And the fact that the industry's revenues are growing at strong rates and more products are being approved bodes well for investors over the long haul.

Sherree DeCovny is a journalist specializing in business and technology. Her work has appeared in leading trade journals published in the United States and the United Kingdom. She is also the author of several books and reports in her field.





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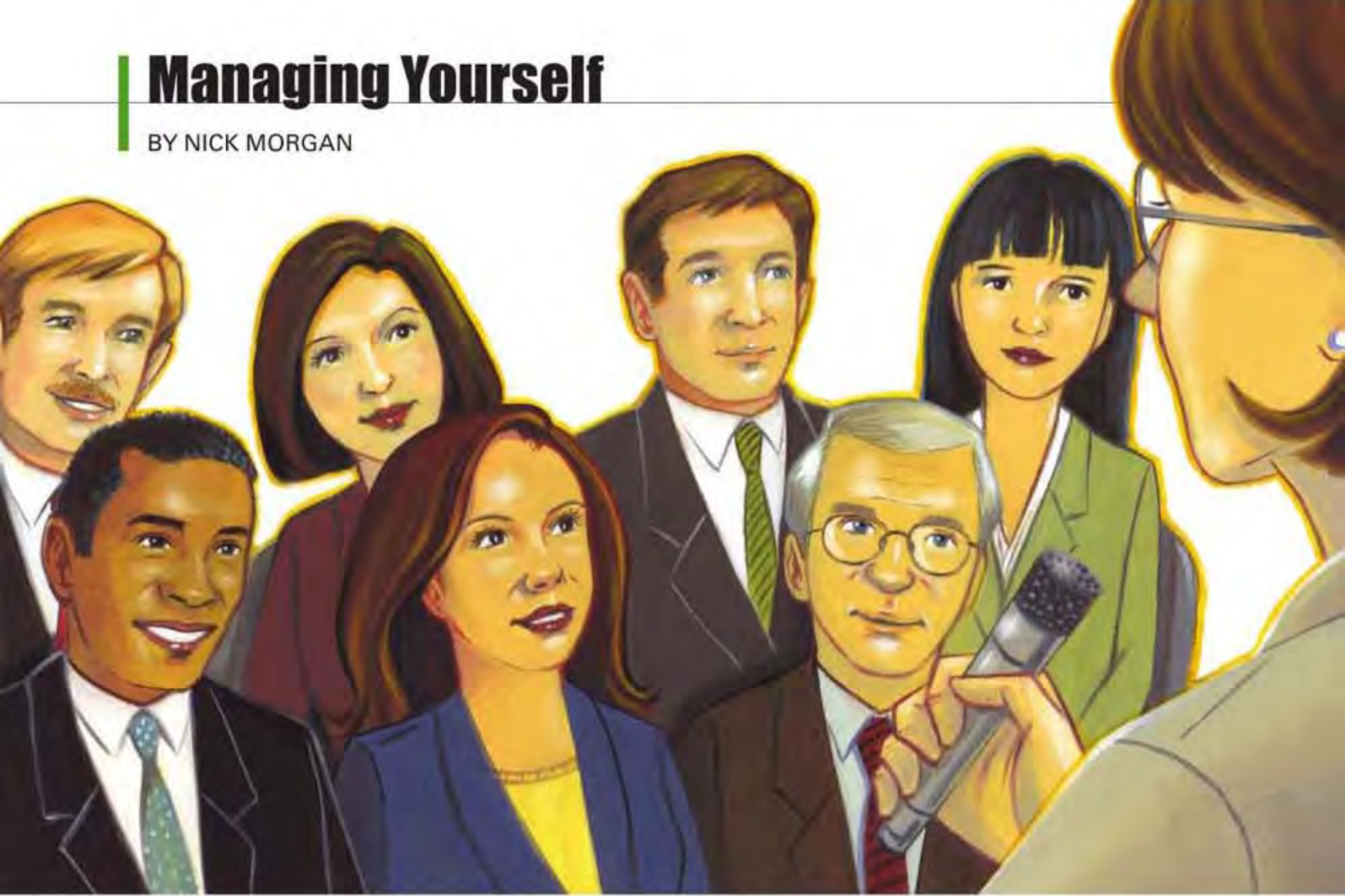
After implementing this new, even higher

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How to Become an Authentic Speaker

Even sincere speeches often come across as contrived. A four-step process will help you create a true emotional connection with your audience.

AT A COMPANYWIDE sales meeting, Carol, a vice president of sales, strides energetically to the podium, pauses for a few seconds to look at the audience, and then tells a story from her days as a field rep. She deftly segues from her anecdote to a positive assessment of the company's sales outlook for the year, supplementing her speech with colorful slides showing strong growth and exciting new products in the pipeline. While describing those products, she accents her words with animated gestures.

Having rehearsed carefully in front of a small audience of trusted colleagues, all of whom liked her message and her energy, she now confidently delivers the closer: Walking to the edge of the stage, she scans the room and challenges her listen-

ers to commit to a stretch sales goal that will put many of them in the annual winners' circle.

But Carol senses that something's amiss. The audience isn't exhibiting the kind of enthusiasm needed to get the year off to a great start. She begins to panic: What's happening? Is there anything she can do to salvage the situation?

We all know a Carol. (You may be one yourself.) We've all heard speeches like hers, presentations in which the speaker is apparently doing all the right things, yet something – something we can't quite identify – is wrong.

If asked about these speeches, we might describe them as "calculated," "insincere," "not real," or "phoned in." We probably wouldn't be able to say exactly why the performance wasn't

compelling. The speaker just didn't seem *authentic*.

In today's difficult economy, and especially in the aftermath of numerous scandals involving individual executives, employees and shareholders are more skeptical than ever. Authenticity – including the ability to communicate authentically with others – has become an important leadership attribute. When leaders have it, they can inspire their followers to make extraordinary efforts on behalf of their organizations. When they don't, cynicism prevails and few employees do more than the minimum necessary to get by.

In my 22 years of working as a communications coach, I have seen again and again how hard it is for managers to come across in public communications as authentic – even when they passionately believe their message. Why is this kind of communication so difficult? Why can't people just stand up and tell the truth?

What Science Teaches Us

The answer lies in recent research into the ways our brains perceive and process communication. We all know by now the power of nonverbal communication – what I call the “second conversation.” If your spoken message and your body language are mismatched, audiences will respond to the nonverbal message every time. Gestures speak louder than words. And that means you *can't* just stand up and tell the truth. You'll often hear someone say in advance of a speech, “I don't want to look over-rehearsed, so I'm going to wing it.” But during the presentation his body language will undermine his credibility. Because he's in a stressful situation with no preparation, he'll appear off-kilter. Whatever the message of his words, he'll seem to be learning as he goes – not likely to engender confidence in a leader.

So preparation is important. But the traditional approach – careful rehearsal like Carol's – often doesn't work either. That's because it usually involves specific coaching on nonverbal ele-

IDEA IN BRIEF

- **Natural body language conveys an emotion before we've expressed it in words – so the timing of practiced gestures to accompany a speech will make them seem artificial.**
- **Instead of rehearsing gestures to make a speech feel authentic, you should tap into four fundamental aims, or “intents,” of a good presentation: to be open with your listeners, to connect with them, to be passionate about your topic, and to listen to messages from your audience, whether spoken or unspoken.**
- **In practicing a speech, work to get into the mind-set of each of these aims and you'll achieve the perceived and actual authenticity that creates a powerful bond with audiences.**

ments – “maintain eye contact,” “spread your arms,” “walk out from behind the podium” – that can ultimately make the speaker seem artificial. The audience can see the wheels turning in her head as she goes through the motions.

Why does this calculated body language come off as inauthentic? Here's where the brain research comes in. We're learning that in human beings the second, nonverbal conversation actually starts *first*, in the instant after an emotion or an impulse fires deep within the brain but before it has been articulated. Indeed, research shows that people's natural and unstudied gestures are often indicators of what they will think and say next.

You might say that words are after-the-fact explanations of why we just gestured as we did. Think of something as simple as a hug: The impulse to embrace someone begins *before* the thought that you're glad to see him or her has fully formed, much less been expressed aloud. Or think about a typical conversation: Reinforcement, contradiction, and commentary arise first in gesture. We nod vigorously, shake our heads, roll our

eyes, all of which express our reactions more immediately – and more powerfully – than words can.

If gesture precedes conscious thought and thought precedes words – even if by no more than a tiny fraction of a second – that changes our thinking about speech preparation. When coached in the traditional way, rehearsing specific gestures one by one, speakers end up employing those gestures at the same time that – or even slightly after – they speak the associated words. Although audiences are not consciously aware of this unnatural sequence, their innate ability to read body language leads them to feel that something's wrong – that the speaker is inauthentic.

“Rehearsing” Authenticity

So if neither casual spontaneity nor traditional rehearsal leads to compelling communication, how can you prepare for an important presentation? You have to tap into the basic impulses underlying your speech. These should include four powerful aims: to be open, to connect, to be passionate, and to listen. Each of these aims informs nearly all successful presentations.

Rehearse your speech with them in mind. Try practicing it four ways, adopting the mind-set of each aim in turn, feeling it more than thinking about it. Forget about rehearsing specific gestures. If you are able to sincerely realize these feelings, your body language will take care of itself, emerging naturally and at the right moment. (The approach described here may also lead you to refine some of your verbal message, to make it accord with your nonverbal one.) When you actually deliver the speech, continue to focus on the four underlying aims.

Note the paradox here. This method is designed to achieve authenticity through the mastery of a calculated process. But authenticity arises from the four aims, or what I call “intents,” that I have mentioned. If you can physically and emotionally embody all four, you'll achieve the perceived *and* real authenticity that creates a powerful bond with listeners.



People's natural and unstudied gestures are often indicators of what they will think and say next.

What Underlies an Authentic Speech

Creating that bond isn't easy. Let me offer some advice for tapping into each of the four intents.

The intent to be open with your audience. This is the first and in some ways the most important thing to focus on in rehearsing a speech, because if you come across as closed, your listeners will perceive you as defensive – as if they

somehow represent a threat. Not much chance for communication there.

How can you become more open? Try to imagine giving your presentation to someone with whom you're completely relaxed – your spouse, a close friend, your child. Notice what that mental picture looks like but particularly what it *feels* like. This is the state you need to be in if you are to have an authentic rapport with your audience.

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If it's hard to create this mental image, try the real thing. Find a patient friend and push yourself to be open with him or her. Notice what that scene looks like and, again, how you feel. Don't overintellectualize: This is a bit like practicing a golf swing or a tennis serve. Although you might make tiny mental notes about what you're doing, they shouldn't get in the way of recognizing a feeling that you can try to replicate later.

Openness immediately feels risky to many people. I worked with a CEO who was passionate about his work, but his audiences didn't respond. He realized that he'd learned as a boy not to show emotion precisely about the things that meant the most to him. We had to replace this felt experience with one of

know well isn't heeding you. You want to capture that child's attention however you can. You don't strategize – you simply do what feels natural and appropriate. You increase the intensity or volume of your voice or move closer.

You also want to *keep* your audience's attention. Don't let listeners slide away into their thoughts instead of following yours. Here, you might transform your young child into a teenager and imagine yearning to keep this easily distractible listener focused on your words.

If openness is the ante that lets you into the game, connection is what keeps the audience playing. Now that Carol is intent on being connected with her listeners, she realizes that she typically waits too long – in fact, until the very

him or her over with your passionate argument.

I worked with a senior partner at a consulting firm who was planning to talk to her colleagues about the things at the firm she valued and wanted to pass on to the next generation as she got ready to retire. Her speech, when she began practicing it, was a crystal-clear but dull commentary on the importance of commitment and hard work. As she began focusing on the emotion beneath the speech, she recalled how her mother, a dancer, had instilled in her the value of persisting no matter what the obstacles. She decided to acknowledge her mother in her talk. She said that her mother, then 92, had never let the pain and difficulties she had experienced during her career obscure her joy in performing. Although the speaker shed most of her tears during rehearsal, her passion transformed the talk into something memorable.

Somewhat more prosaically, Carol begins to think about what she's passionate about – her determination to beat a close competitor – and how that might inform her presentations. She realizes that this passion fuels her energy and excitement about her job. She infuses her next speech with some of that passion and immediately comes across as more human and engaging.

The intent to “listen” to your audience. Now begin thinking about what your listeners are likely to be feeling when you step up to begin your presentation. Are they excited about the future? Worried about bad sales news? Hopeful they can keep their jobs after the merger? As you practice, imagine yourself watching them very closely, looking for signs of their response to you.

Of course, your intent to discover the audience's emotional state will be most important during the actual presentation. Usually your listeners won't actually be talking to you, but they will be sending you nonverbal messages that you'll need to pick up and respond to.

This isn't as hard as it may sound. As a fellow member of the human race, you

Don't overintellectualize: Working to be open is a bit like practicing a golf swing or a tennis serve.

talking to a close friend he was excited to see.

Let's go back to Carol (a composite of several clients). As she works on feeling more open in her presentations, her face begins to light up with a big smile when she speaks, and her shoulders relax. She realizes that without meaning to, she has come across as so serious that she has alienated her audiences.

A change in nonverbal behavior can affect the spoken message. Over and over, I've seen clients begin speaking more comfortably – and more authentically – as the intent to be more open physically led to a more candid expression of their thoughts.

The intent to connect with your audience. Once you begin to feel open, and you've stored away the memory of what it looks and feels like, you're ready to practice the speech again, this time focusing on the audience. Think about wanting – *needing* – to engage your listeners. Imagine that a young child you

end of her speech – to make contact with them. She begins her next presentation by reaching out to audience members who have contributed significantly to the company's sales success, establishing a connection that continues throughout her speech.

The intent to be passionate about your topic. Ask yourself what it is that you feel deeply about. What's at stake? What results do you want your presentation to produce? Are you excited about the prospects of your company? Worried that they look bleak? Determined to improve them?

Focus not on what you want to say but on why you're giving the speech and how you feel about that. Let the underlying emotion come out (once you've identified it, you won't need to force it) in every word you deliver during this round of rehearsal. Then raise the stakes for yourself: Imagine that somebody in the audience has the power to take everything away from you unless you win


are as expert as your audience in reading body language – if you have an intent to do so. As you read the messages your listeners are sending with their bodies, you may want to pick up the pace, vary your language, even change or eliminate parts of your talk. If this leads you to involve the audience in a real dialogue – say, by asking an impromptu question – so much the better.

If time has been set aside for questions at the end of your presentation, you'll want to listen to the audience with your whole body, keeping yourself physically and psychologically still in the way you might when someone is telling you something so important that you dare not miss a word. Without thinking about it, you'll find yourself leaning forward or nodding your head – gestures that would appear unnatural if you were doing them because you'd been told to.

Of course, listening to and responding to an audience in the middle of your

speech requires that you have your material down cold. But you can also take what your listeners tell you and use it to improve future presentations. I worked with a sales executive who had been so successful that she began touring the world in order to share her secrets with others. In listening to audiences, paying attention to their bodies as well as their words, she began to realize that they didn't just want to receive what she had to say; they wanted to give her something in return. The executive's speeches were inspiring, and her listeners wanted to thank her. So we designed a brief but meaningful ceremony near the end of her speech that allowed the audience members to get up, interact with one another, and give back to the speaker some of the inspiration she was giving them.

Consider Carol once again. Because of her intent to pick up on her listeners' emotions, Carol begins to realize over the course of several speeches that she

has been wrongly assuming that her salespeople share her sense of urgency about their major competitor. She resolves to spend more time at the beginning of her next presentation explaining why stretch goals are important. This response to her listeners' state of mind, when combined with her own desire to be open, connected, and passionate, strengthens her growing ability to come across as – and be – an authentic speaker. 

Nick Morgan (nick@publicwords.com) is the founder of Public Words, a communications coaching firm, and the author of *"The Kinesthetic Speaker: Putting Action into Words"* (HBR April 2001). His new book, *Trust Me: Four Steps to Authenticity and Charisma*, is scheduled for publication in December 2008 by Jossey-Bass.

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When Teams Can't Decide

Are stalemates on your leadership team making you a dictator by default? Stop blaming your people – start fixing the process.

THE EXECUTIVE TEAM is deliberating about a critical strategic choice, but no matter how much time and effort the team members expend, they cannot reach a satisfactory decision. Then comes that uncomfortable moment when all eyes turn to the CEO. The team waits for the boss to make the final call, yet when it's made, few people like the decision. Blame, though unspoken, is plentiful. The CEO blames the executives for indecisiveness; they resent the CEO for acting like a dictator. If this sounds familiar, you've experienced what I call the *dictator-by-default syndrome*.

For decades this dynamic has been diagnosed as a problem of leadership or teamwork or both. To combat it, companies use team-building and communications exercises that teach executives how to have assertive conversations, give and receive feedback, and establish mutual trust. In doing so, they miss the real problem, which lies not with the people but with the process. This sort of impasse is inherent in the act of arriving at a collective preference on the basis of individual preferences. Once leadership teams understand that voting-system mathematics are the culprit, they can stop wasting time on irrelevant psychological exercises and instead adopt practical measures designed to break the impasse. These measures, proven effective in scores of strategy off-sites for companies of all sizes, enable teams to move beyond the blame cycle to a no-fault style of decision making.



Jan Hsieh

Asking the Impossible

Reaching collective decisions based on individual preferences is an imperfect science. Majority wishes can clash when a group of three or more people attempts to set priorities among three or more items. This "voting paradox," first noted in the eighteenth century by the Marquis de Condorcet, a French mathematician and social theorist, arises because different subsets of the group can generate conflicting majorities for all possible alternatives (see the exhibit "The Boss Is Always Wrong"). A century and a half later, renowned economist Ken Arrow developed his impossibility theorem, which established a series of mathematical proofs based on Condorcet's work.

Suppose a nine-person leadership team that wants to cut costs is weighing three options: (a) closing plants, (b) moving from a direct sales force to distributors, and (c) reducing benefits and pay. While any individual executive may be able to "rack and stack" her preferences, it's possible for a majority to be simultaneously found for each alternative. Five members might prefer "closing plants" to "moving sales to distributors" ($a > b$), and a different set of five might prefer "moving sales" to "reducing benefits and pay" ($b > c$). By the transitive property, "closing plants" should be preferred to "reducing benefits and pay" ($a > c$). But the paradox is that five members could rank "reducing benefits and pay" over "closing plants" ($c > a$). Instead of being transitive, the preferences are circular.

When the CEO is finally forced to choose an option, only a minority of team members will agree with the decision. No matter which option is selected, it's likely that different majorities will prefer alternative outcomes. Moreover, as Arrow demonstrated, no voting method – not allocation of points to alternatives, not rank-ordering of choices, nothing – can solve the problem. It can be circumvented but not cured.

Although the concept is well understood in political science and economics and among some organizational theo-

IDEA IN BRIEF

- When executive teams hit an impasse deliberating on an important decision, they often look to the CEO to make the final call, only to be displeased with the outcome.
- The CEO blames the team for indecisiveness; the team resents the CEO for acting like a dictator.
- This problem arises because groups try to reach consensus on the basis of individual preferences.
- Use the tactics described here to circumvent this *dictator-by-default syndrome* and create genuine team alignment.

rists, it hasn't yet crossed over to practical management. Understanding this paradox could greatly alter the way executive teams make decisions.

Acknowledging the Problem

To circumvent the dictator-by-default syndrome, CEOs and their teams must first understand the conditions that give rise to it. The syndrome is perhaps most obvious at executive off-sites, but it can crop up in any executive committee meeting of substance.

Most executive teams are, in effect, legislatures. With the exception of the CEO, each member represents a significant constituency in the organization, from marketing to operations to finance. No matter how many times a CEO asks team members to take off their functional hats and view the organization holistically, the executives find it difficult to divorce themselves from their functional responsibilities. Because the team often focuses on assigning resources and setting priorities, members vie for allocations and approval for favored projects. When more than two options are on the table, the scene is set for the CEO to become a dictator by default.

More insidiously, the problem exists even when a team is considering an either/or choice, despite the fact that

the voting paradox requires three or more options. Framing strategy considerations as binary choices – "We must either aggressively enter this market or get out of this line of business altogether" – appears to avert the problem. However, such choices always include a third, implied alternative: "Neither of the above." In other words, there could be circular majorities for entering the market, for exiting the business, and for doing neither.

Take, for example, the ubiquitous business case, which usually offers a single, affirmative recommendation: "We should aggressively enter this market now." The only apparent alternative is to forgo the market – but some team members may want to enter it more tentatively, others may want to enter an adjacent market, and still others may want to defer the decision until the market potential becomes clearer.

The use of the business case, which forces decisions into a yes-or-no framework, is a tacit admission that groups are not good at discussing and prioritizing multiple options. Further, when a team of analysts has spent six months working up the business case and only a half hour has been allotted to the item on the agenda, dissenting team members may be reluctant to speak up. Questions from the heads of sales and marketing, who have spent only a day or two with a briefing book and 20 minutes watching a PowerPoint presentation, would most likely be treated as comments tossed from the peanut gallery. So the team remains silent and unwittingly locked in the voting paradox. Ultimately, in order to move on to the next agenda item, either the team appears to reach a majority view or the CEO issues a fiat. In reality, however, there may be competing opinions, alternative majority opinions, and dissatisfaction with the outcome – all of them unstated.

Managing the Impossible

Once CEOs and their teams understand why they have trouble making decisions, they can adopt some straight-

forward tactics to minimize potential dysfunction.

Articulate clearly what outcome you are seeking. It's surprising how often executives assume that they are talking about the same thing when in fact they are talking past one another. In a discussion of growth, for instance, some may be referring to revenue, others to market share, and others to net income. The discussion should begin with agreement on what outcome the team is trying to achieve. If it's growth, then do all the members agree on which measures are most relevant?

In the absence of clearly articulated goals, participants will choose options based on unspoken, often widely differing, premises, creating a situation that is ripe for the dictator-by-default syndrome. One division of a major industrial company, for example, was running out of manufacturing capacity for a commodity product made in the United States and a specialty product made in Western Europe. Because costs of labor and raw materials were high in both places, the leadership team was considering what seemed like an obvious choice: shutting down the U.S. plant and building a plant in China, where costs were lower and raw materials were closer, to handle the commodity business and any growth in the specialty business. Most members of the team assumed that the desired outcome was to achieve the highest possible return on net assets, which the move to China might well have accomplished.

However, the CEO had been in discussions with corporate managers who were primarily concerned with allocation of overhead throughout the enterprise. The move to China would mean shutting down an additional plant that supplied raw materials to the U.S. plant, with implications for corporate earnings. Once the division team fully understood what outcome the parent company desired – to minimize overhead costs without taking a hit on earnings – it could work on solving the capacity problem in a way that honored the parent's strictures.

It's essential to keep discussion of the desired outcome distinct from discussion about how to achieve it. Sometimes, simply articulating the desired outcome will forestall or dissolve disagreement about solutions because the options can be tested against an accepted premise. It may also help avert the political horse trading that can occur when executives

Europe; or build a commodity plant in China and gradually decommission the U.S. plant.

Test fences and walls. When teams are invited to think about options, they almost immediately focus on what they *can't* do – especially at the divisional level, where they may feel hemmed in by corporate policies, real or imagined.

It's essential to keep discussion of the desired outcome distinct from discussion about how to achieve it.

try to protect their interests rather than aiming for a common goal.

Provide a range of options for achieving outcomes. Once the team at the industrial company had articulated the desired outcome, it could break the simplistic "accept," "reject," and "defer" alternatives into a more nuanced range of options: build a specialty plant in China; beef up the plant in Western

Often the entire team not only assumes that a constraint is real but also shies away when the discussion comes anywhere near it. When team members cite a presumed boundary, my colleagues and I encourage them to ask whether it's a wall, which can't be moved, or a fence, which can.

For example, one division of a global provider of financial services was

THE VOTING PARADOX

The Boss Is Always Wrong

A management team is attempting to select a fleet vehicle for its company's senior executives. When asked to rank three choices – BMW, Lexus, and Mercedes – the individual team members reach an impasse.

To break it, the CEO intervenes and picks BMW. But as the table shows, two-thirds of the team would have preferred a Lexus. Had he chosen Lexus, however, two-thirds of the team would have preferred

Mercedes. And had he chosen Mercedes, two-thirds of the team would have preferred BMW. Instead of being transitive – Lexus beats BMW; Mercedes beats Lexus; therefore Mercedes beats BMW – the choice is circular.

Whatever decision the boss makes, the majority of his team is rooting for a different option. Unjustly, but not surprisingly, he is considered a dictator.

	First Choice	Second Choice	Third Choice
Lou	BMW	Mercedes	Lexus
Sue	Mercedes	Lexus	BMW
Stu	Lexus	BMW	Mercedes

looking at new avenues for growth. Although expanding the division's offerings to include banking services was a promising possibility, the executive team never considered it, assuming that corporate policy prohibited the company from entering banking. When the division head explicitly tested that assumption with her boss, she found that the real prohibition – the wall – was against doing anything that would bring certain types of new regulatory requirements. With that knowledge, the division's executive team was able to develop strategic options that included some features of banking but avoided any new regulations.

Surface preferences early. Like juries, executive teams can get an initial sense of where they stand by taking nonbinding votes early in the discussion. They can also conduct surveys in advance of meetings in order to identify areas of agreement and disagreement as well as the potential for deadlock.

A global credit card company was deciding where to invest in growth. Ordinarily, executive team members would have embarked on an open-ended discussion in which numerous countries would be under consideration; that tactic would have invited the possibility of multiple majorities. Instead, they conducted a straw poll, quickly eliminating the countries that attracted no votes and focusing their subsequent discussion on the two places where there was the most agreement.

Using weighted preferences is another way to narrow the decision-making field and help prevent the dictator-by-default syndrome. The life and annuities division of a major insurance company had developed a business plan that included a growth in profit of \$360 million. The executive team was trying to determine which line of business would deliver that growth. Instead of casting equally weighted votes for various lines of business, each executive was given poker chips representing \$360 million and a grid with squares representing the company's products and channels. Team



Proposing options early and allowing people to tailor them reduces the likelihood of a stalemate.

members distributed their chips according to where they thought the projected growth was likely to be found. After discussing the results they repeated the exercise, finding that some agreement emerged.

By the third and final round of the exercise, this weighted voting had helped them narrow their discussion to a handful of businesses and channels, and genuine alignment began to develop among team members. Equally weighted votes might have locked the executive team into the voting paradox, but this technique dissolved the false equality of alternatives that is often at the root of the

problem. Proposing options early and allowing people to tailor them reduces the likelihood that executives will be forced into a stalemate that the CEO has to break.

State each option's pros and cons. Rather than engaging in exercises about giving feedback or learning how to have assertive conversations, executives can better spend their time making sure that both sides of every option are forcefully voiced. That may require a devil's advocate.

The concept of a devil's advocate originated in the Roman Catholic Church's canonization process, in which a lawyer

is appointed to argue against the canonization of a candidate—even the most apparently saintly. Similarly, in law, each side files its own brief; the defense doesn't simply respond off-the-cuff to the plaintiff's argument.

In business, however, an advocate for a particular option typically delivers a presentation that may contain some discussion of risk but remains entirely the work of someone who is sold on the idea. Members of the executive team are expected to agree with the business case or attack it, although they may have seen it only a few days before the meeting and thus have no way of producing an equally detailed rebuttal or offering solid alternatives. Further, attacking the business case is often perceived as attacking the person who is presenting it. Frequently the only executives with open license to ask tough, probing questions are the CEO and the CFO, but even they lack the detailed knowledge of the team advocating the business case.

By breaking the false binary of a business case into several explicit and implicit alternatives and assigning a devil's advocate to critique each option, you can depersonalize the discussion, making thorough and dispassionate counterarguments an expected part of strategic deliberations. This approach is especially valuable when the preferences of the CEO or other powerful members of the team are well known. If assigning a devil's advocate to each option appears too cumbersome, try a simpler variant: Have the CEO or a meeting facilitator urge each team member to offer two or three suggestions from the perspective of his functional area. Instead of unreasonably asking executives to think like a CEO, which usually elicits silence or perfunctory comments, this tactic puts team members on the solid ground of their expertise and transforms an unsatisfying false binary into far more options for discussion.

A major internet entertainment company adopted a novel version of the devil's advocate approach. The company maintains a council to consider its many

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potential investments, from upgrading its server farms to adopting new technology to creating special entertainment events on the web. In the past, each opportunity was presented to the council as a business case by an advocate of the investment, and each case was evaluated in isolation.

Frustrated with this haphazard approach, the company established a new system: The council now considers all investment proposals as a portfolio at its monthly strategy meetings. All proposals follow an identical template, allowing for easy comparison and a uniform scoring system. Finally, each one needs sign-off from an independent executive.

This system incorporates the devil's advocate role at two levels. For each proposal the validating executive, not wishing to be accountable for groundless optimism, considers carefully all of the counterarguments, does a reality check, and makes sure the sponsor adjusts the score accordingly. At the portfolio level, the comparative-scoring system reminds the team that the proposals are competing for limited resources, which prompts a more critical assessment.

Devise new options that preserve the best features of existing ones. Despite a team's best efforts, executives can still find themselves at an impasse. That is a measure of both the weightiness of some strategic decisions and the intractability of the voting paradox — it's not necessarily an index of executive dysfunction.

Teams should continue to reframe their options in ways that preserve their original intent, be it a higher return on net assets or greater growth. When they feel the impulse to shoehorn decisions into an either/or framework, they should step back and generate a broader range of options. For instance, the executive team of the property and casualty division of a large insurer wanted to grow either by significantly increasing the company's share with existing agencies or by increasing the total number of agencies that sold its products. Before the leadership team took either path, it

needed to decide whether to offer a full line of products or a narrow line. As a result, team members found themselves considering four business models: (1) full product line, existing large agencies; (2) narrow product line, existing large agencies; (3) full product line, more small agencies; and (4) narrow product line, more small agencies. Dissatisfied with those choices, they broke the business down into 16 value attributes, including brand, claim service, agency compensation, price competitiveness, breadth of product offering, and agency-facing technology. Some of these value attributes might apply to all four of the original business models; others to three or fewer. Agent-facing technology, for example, is typical of working with many small agencies, because their sheer numbers preclude high-touch relationships with each one.

The team then graded its company and several competitors on each attribute to find competitive openings that fit with the division's willingness and ability to invest. Instead of four static choices, it now had a much larger number of choices based on different combinations of value attributes. Ultimately, it chose to bring several lagging attributes up to market standard, elevate others to above-market standard, and aggressively emphasize still others. This turned out to be a far less radical redirection than the team had originally assumed was needed.

Two Essential Ground Rules

So far, I have outlined several tactics that leadership teams can use to circumvent the dictator-by-default syndrome. These tactics can be effective whether they are used singly or in tandem. But if teams are to thwart this syndrome, they must adhere to two ground rules.

Deliberate confidentially. A secure climate for the conversation is essential to allow team members to float trial balloons and cut deals. An executive who knows that her speculative remarks about closing plants may be circulated throughout the company will be

reluctant to engage in the free play of mind that unfettered strategy discussion demands. Moreover, team members whose priorities don't prevail in the deliberations must be able to save face when the meeting is over. If they are known to have "lost" or to have relinquished something dear to their constituents, their future effectiveness as leaders might be undermined.

Deliberate over an appropriate time frame. All too often the agendas for strategy off-sites contain items like "China market strategy," with 45 minutes allotted for the decision. The result is a discussion that goes nowhere or an arbitrary decision by the CEO that runs roughshod over competing majorities for other options. When new options are devised or existing ones unbundled, team members need time to study them carefully and assess the counterarguments. Breaking up the discussion into several meetings spaced widely apart and interspersed with additional analysis and research gives people a chance to reconsider their preferences. It also gives them time to prepare their constituencies for changes that are likely to emerge as a result of a new strategy.

...

Leadership and communication exercises have their merits. A team can't make effective decisions if its members don't trust one another or if they fail to listen to one another. The problem I see most often, however, is one that simply cannot be fixed with the psychological tools so often touted in management literature. If executives employ the tactics described here, which are designed to fix the decision-making process, they will have far greater success in achieving real alignment. □

Bob Frisch (rfrisch@strategicoffsites.com) is the managing partner of the Strategic Offsites Group in Boston and a coauthor of "Off-Sites That Work" (*HBR* June 2006).

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Letters to the Editor

Rebuilding the R&D Engine in Big Pharma

I hope pharmaceutical companies – especially those that confuse innovative R&D with repackaging, repositioning, reformulating, and repatenting expensive, underperforming drugs – will embrace and act upon Jean-Pierre Garnier's article, "Rebuilding the R&D Engine in Big Pharma" (May 2008). Garnier's vision of retooling R&D with entrepreneurial,

ever, can be strategically, tactically, and fiscally smart – especially if the need for launching costly, protracted, new studies could be obviated by redesigning those that are already under way. Changes that allow a greater flexibility for rapid modifications could help capture fresh information regarding novel targets or effects and highlight opportunities for further exploration.

Cervarix, GlaxoSmithKline's expensive prophylactic vaccine against cervical cancer, is a compelling example of one such candidate with unanticipated potential. According to preclinical studies, the vaccine's adjuvant can elevate levels of certain naturally occurring protective antibodies that may clear away oxidized "bad" cholesterol. Since people with diseased blood vessels have low levels of circulating cholesterol antibodies, could the new adjuvant raise their levels and thus provide protection against cardiovascular disease? The answer to that question is presently unclear. But because GSK now has access to the large, healthy population of young women who participated in the Cervarix trials – and who may have been unintentionally vaccinated against oxidized "bad" cholesterol – the company has a chance to find out.

Shawn J. Green
Managing Director
Origo Biosciences
Davis, California



science-driven researchers is likely to benefit both patients and shareholders.

New disease targets and unexpected biological changes are often revealed during the discovery and preclinical stages of drug and vaccine candidate evaluation. But it's difficult to deviate from the protocol of an existing clinical study and begin looking for additional information from the patient population. Repurposing during those stages, how-

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The Uncompromising Leader

"The Uncompromising Leader," by Russell A. Eisenstat, Michael Beer, Nathaniel Foote, Tobias Fredberg, and Flemming Norrgren (July–August 2008), begins with the sentence, "Managing the tension between performance and people is at the heart of the CEO's job." In fact, that task is at the heart of every manager's job – and has been a topic of academic and practical interest to managers since the 1950s, when Edwin A. Fleishman became the first academic to receive recognition for the high-commitment, high-performance (HCHP) model.

Fleishman found that effective leaders were strong in showing consideration (high commitment) as well as providing structure (high performance). He developed a self-assessment instrument, the Leadership Opinion Questionnaire, that is still used in management coaching today.

In 1964, Robert R. Blake and Jane S. Mouton's book *The Managerial Grid* was published. Their research focused on the importance of senior managers developing a climate that shows concern for production and people. Their contribution to the HCHP model, the managerial grid program, dominated the training market for the next 20 years.

Another book published around that time – Paul Hersey and Kenneth H. Blanchard's *Management of Organizational Behavior* (1969) – suggested that effective leaders need to be able to adapt to the situations they find themselves in and respond accordingly. The authors' situational leadership model, a further refinement of the HCHP model, may well be the dominant leadership-style training model today.

Then, in 1976, Fred Edward Fiedler, Martin M. Chemers, and Linda Mahar offered a series of self-assessment exercises in their book, *Improving Leadership Effectiveness: The Leader Match Concept*.

This variation on the HCHP model helps managers to determine their style inclination, such as whether they are leader-member focused or task-motivated. It has not enjoyed the same level of success as its predecessors, however.

Eisenstat et alia describe very well the ongoing challenge of balancing people and tasks that managers face. But they are only the latest in a long line of pioneering researchers in this field.

Donovan R. Greene

Industrial Psychologist

McMurry

Mountain View, California

Eisenstat, Beer, Foote, Fredberg, and Norrgren respond: We thank Donovan R. Greene for placing our work in the context of past research on leadership. We agree that effectively managing the tension between people and performance is a perennial and critical leadership challenge that has been highlighted by previous researchers through the years.

However, our focus was not on the academic question of whether a tension between people and performance exists, but rather on the much tougher managerial question of exactly what leaders must do to productively address this issue. Our work highlights the specific practices that allow a CEO to successfully hold a firm's moral and strategic center despite intense competitive demands.

Furthermore, while previous research has mainly centered on managers as individuals, our emphasis is on the overall leadership of the firm as a great and enduring institution. As Greene correctly points out, managers at every level should embrace the duality of their leadership responsibilities. CEOs of high-commitment and high-performance firms, however, face a particularly complex challenge: They must find ways to inspire and develop commitment in large multiunit firms spread across the globe while staying responsive to demanding capital markets. To succeed, they cannot rely on themselves as the

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sole instruments of leadership. Instead, they need to develop and inspire a larger leadership network.

The Science of Thinking Smarter: A Conversation with Brain Expert John J. Medina

I was struck by the conclusion of the article "The Science of Thinking Smarter: A Conversation with Brain Expert John J. Medina" (May 2008), which states that little is known about how our brains work that can be applied to benefit business. Medina says we know that "the brain isn't interested in reality; it's interested in survival" and that "our understanding of reality is approximate at best." He goes on to say that "memory is not fixed at the moment of learning, and repetition improves the odds of retrieval." To me, therein lies the answer.

Companies that continue to tell and retell old stories by constantly identify-

ing and fixing problems with the goal of survival simply affirm their reality of woes. The airline and health care industries are prime examples.

In contrast, however, organizations that manage to re-create themselves and shape new destinies by writing new stories – such as Apple, Starbucks, FedEx, and AT&T – are rewarded with growth. Therefore, we can use the shortcomings of the brain to our advantage, as truly visionary companies have shown again and again.

Jennifer Jones

President


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Denver

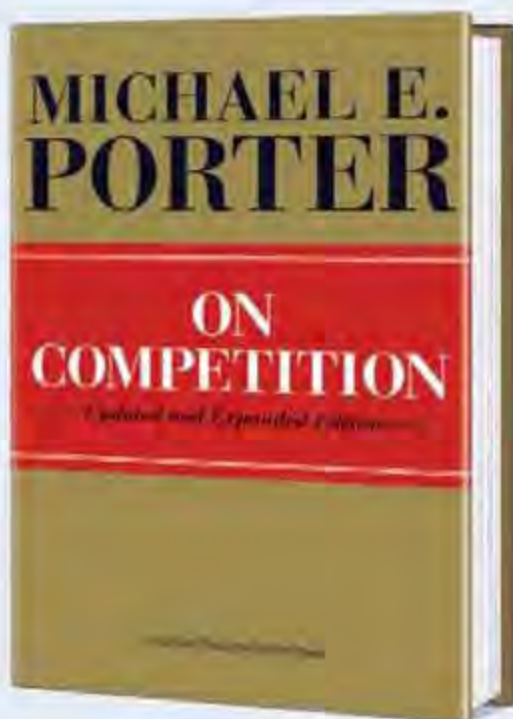
Medina responds: Skeptical as I am about applying anything in the brain sciences to business, I sense Jennifer Jones is on to something.

From a cognitive neuroscience perspective, learning is ridiculously simple: Establish a richly structured fund of

knowledge, then improvise from it as soon as you can. Spending our evolutionary "adolescence" in Africa's unstable meteorological environment forced us to become virtuoso improvisers, reshaping and building on new knowledge as soon as we acquired it. Probably the reason why the brain is so resistant to committing anything to long-term storage (it can take more than a decade to accomplish the feat) is a fear that things will change again. It wants to be ready. That was fortunate for our direct ancestors, for things did change, and they were *very* ready.

What lies beneath our evolutionary success are the contradictory twin tasks of cementing a database but refusing to let it completely harden. My previous comments regarding repetition might best be understood as aiding the former effort – repeat if you want to remember. Jones's insightful comments might find their clearest application in the latter – improvise if you want to survive. 

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Executive Summaries

NOVEMBER 2008



“Businesses based all over the globe are feverishly competing for people who, often for the first time in their lives, have numerous options and high expectations.”

—page 62

HUMAN RESOURCES

COVER STORY

62 | Winning the Race for Talent in Emerging Markets

Douglas A. Ready, Linda A. Hill, and Jay A. Conger

“This war for talent is like nothing we’ve ever seen before,” write the authors, who have spent decades studying talent management and leadership development. Recently they interviewed executives at more than 20 global companies to identify strategies for attracting talent in developing economies – where, they learned, brand, opportunity, purpose, and culture play out in particular ways. A desirable *brand* affiliation in conjunction with inspirational leadership appeals to eager young high potentials suddenly awash in possibilities. *Opportunity* should imply an accelerated career track – or at least a fast-paced acquisition of skills and experience. *Purpose* ought to benefit a job candidate’s home country and express the value of global citizenship. A company’s *culture* should be meritocratic, value both individual and team accomplishments, and follow through on promises implied in recruitment.

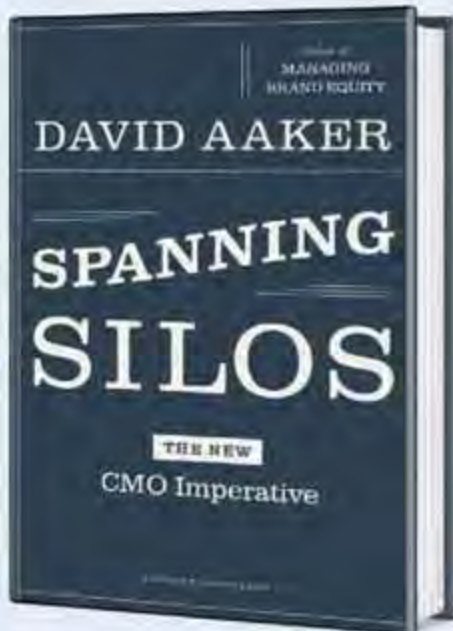
Lenovo, TCS Iberoamerica, Standard Chartered Bank, and HCL Technologies have all made a concerted effort to keep those promises. Lenovo, for example, very methodically provides development opportunities for its high potentials, with career maps that are linked to key slots across the globe. TCS puts Brazilian and Uruguayan leaders who are well connected and admired in their communities in charge of local operations. SCB lives up to its values by investing in renewable-energy businesses and supporting local communities through microfinance programs. HCL has empowered its employees with a revamped intranet that allows them to report problems with services and processes or ask the CEO direct questions.

The authors claim that emerging markets pose special challenges for foreign multinationals. For instance, talent strategies that work at home will probably need extensive tailoring to succeed in the developing world, and an overreliance on fluency in English may impede spotting talent. It’s critical to develop a core of local talent and to embrace and leverage diversity.

In the talent race, a local company that creates genuine opportunities and exhibits the desired cultural conditions will often win out over a Western multinational offering higher pay.

Reprint R0811C

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IDEAS & TRENDS

FORETHOUGHT

26 Do Politics Shape Buyout Performance?

Oliver F. Gottschalg and Aviad A. Pe'er

A new study of private equity buyouts shows that, on average, U.S. acquisitions made in “red” (Republican) states deliver significantly higher returns than acquisitions made in “blue” (Democratic) ones. **Reprint F0811A**

Time to Rethink Capitalism?

Michael Yaziji

The shareholders, who provide capital, have the most at stake in a company and the biggest incentive to ensure its success – so they should call the shots and reap the biggest returns, right? Wrong, says a professor at IMD. He argues that in today's firms, labor bears the most risk and provides the competitive advantage. Labor, therefore, should make the decisions and get the residuals. **Reprint F0811B**

Finesse the Visa Crisis with a Worker-Mobility Plan

Ian Macdonald

A shortage of H-1B visas is preventing U.S. companies from hiring the foreign technical employees they need to fill their talent gap. Some firms are getting around the problem by seeking alternatives to basing employees stateside in the first place – and, in the process, are reaping other benefits. **Reprint F0811C**

The Best Advice I Ever Got

Maureen Chiquet

The CEO of Chanel recalls her days as a young merchant, when she was taken to task by a powerful executive for not listening. Twenty years later, his words still profoundly affect the way she thinks about her company's products and interacts with customers, employees, and other stakeholders. **Reprint F0811D**

Low-Trust Teams Prefer Individualized Pay

Kimberly Merriman

Short-term, virtual, and cross-cultural teams have become the new norm, but building trust among team members is particularly challenging. That has implications for how managers should motivate and reward them. **Reprint F0811E**

A Conversation with Peter H. Diamandis

The CEO of the X Prize Foundation explains how offering cash jackpots for breakthrough innovations can help solve problems big and small in fields like space exploration, energy, and education. **Reprint F0811F**

Supervisor Work/Life Training Gets Results

Ellen Ernst Kossek and Leslie B. Hammer

Simple, inexpensive programs that teach managers to be more supportive of their direct reports' work/life issues can generate big returns in employee health and satisfaction, according to a multiyear study of hundreds of frontline workers and dozens of supervisors. **Reprint F0811G**

Reviews

Featuring *The Trophy Kids Grow Up: How the Millennial Generation Is Shaking Up the Workplace*, by Ron Alsop.

HBR CASE STUDY

41 When Your Colleague Is a Saboteur

Bronwyn Fryer

Mark Landstad, relatively new to CliffBank's investment banking division, has a veteran teammate, Nicole Collins, who appears to be a reliable ally. However, when Mark needs her help in locating vital information for his part of a presentation they will be doing together, she feigns ignorance. During the meeting, Nicole produces the data out of the blue and wows the attendees with her analysis. Knocked off balance by the sabotage, Mark clumsily seeks advice from his boss, who is a brick wall when it comes to interpersonal dynamics. How should Mark deal with his backstabbing colleague?

Maggie Craddock, president of Workplace Relationships, classifies Mark as an anxious pleaser, one of four power styles identified by her firm's research. She surmises that Mark is actually sabotaging himself and recommends that he address his dilemma by first examining his own *modus operandi*.

R. Dixon Thayer, former CEO of I-trax and himself once the victim of coworker sabotage, has empathy for Mark. However, he criticizes Mark's hasty, open-ended way of approaching his superior. Thayer lists four "rules for boss engagement" that Mark should follow, beyond proving that his sneaky colleague won't stop him from getting results at CliffBank.

Deborah Kolb, of the Simmons School of Management, contends that Mark does not yet understand his division's culture well enough to know whether Nicole's behavior is the rule or the exception. Only by overcoming his political and interpersonal naiveté, she argues, can he learn how to negotiate relationships in his new setting.

Reprint R0811A

Reprint Case only R0811X

Reprint Commentary only R0811Z

DIFFERENT VOICE

55 Smart Power

A Conversation with Leadership Expert Joseph S. Nye, Jr.

The next U.S. administration will face enormous challenges to world peace, the global economy, and the environment. Exercising military and economic muscle alone will not bring peace and prosperity.

According to Nye, a former U.S. government official and a former dean at Harvard University's John F. Kennedy School of Government, the next president must be able to combine hard power, characterized by coercion, and what Nye calls "soft" power, which relies instead on attraction. The result is *smart power*, a tool great leaders use to mobilize people around agendas that look beyond current problems.

Hard power is often necessary, Nye explains. In the 1990s, when the Taliban was providing refuge to Al Qaeda, President Clinton tried – and failed – to solve the problem diplomatically instead of destroying terrorist havens in Afghanistan. In other situations, however, soft power is more effective, though it has been too often overlooked. In Iraq, Nye argues, the use of soft power could draw young people toward something other than terrorism. "I think that there's an awakening to the need for soft power as people look at the crisis in the Middle East and begin to realize that hard power is not sufficient to resolve it," he says.

Solving today's global problems will require smart power – a judicious blend of the other two powers. While there are notable examples of men who have used smart power – Teddy Roosevelt, for instance – it's much more difficult for women to lead with smart power, especially in the United States, where women feel pressure to prove that they are not "soft."

Only by exercising smart power, Nye says, can the next president of the United States set a new tone for U.S. foreign policy in this century.

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THE HBR INTERVIEW

72 Cisco Sees the Future

John Chambers

Interviewed by Bronwyn Fryer and Thomas A. Stewart

During his nearly 14 years at the helm of networking giant Cisco Systems, Chambers has developed an uncanny ability to sense market trends long before others do. He predicted, for instance, that voice transmission would become free long before computer networks could even carry it. And Cisco was one of the first to shift from call centers to web-based customer service.

Seeing the future is essential for a company that must start developing a product some six years before it goes to market. How does Chambers do it? He looks for what he calls "market transitions" – subtle social, economic, or technological signs of an impending disruptive shift – which, he says, start turning up five to seven years before the market actually grasps their significance. The move to open-source software development was one that Chambers saw and Microsoft did not.

Early on, Chambers learned to sense market transitions by listening closely to customers, connecting individual dots of behavior into patterns that indicated future trends. Later, he realized he needed to turn Cisco's management processes upside down to benefit from that foresight.

In this interview, Chambers describes how he was able to surrender his role as a command-and-control CEO and institute a collaborative decision-making model that allows the company to respond speedily to emerging transitions. Managers throughout Cisco now form cross-functional teams, working together to identify and exploit new opportunities quickly. The model allows Cisco to simultaneously implement 22 major sales initiatives as effectively as most companies do one or two.

Reprint R0811D

80 Tomorrow's Global Giants? Not the Usual Suspects

Pankaj Ghemawat and Thomas Hout

Multinational corporations from developed and developing economies alike are aggressively expanding their global presence, particularly in emerging markets. Industry traits largely determine the winners – but that needn't always be the case, say Ghemawat, of IESE Business School, and Hout, of the University of Hong Kong. Companies can break the pattern by anticipating or creating new customer segments, managing cost convergences, or reworking the value chain.

Some established MNCs are succeeding in production- and logistics-oriented businesses, where local rivals usually have an advantage. One way is by using technology and capital to accelerate segments' growth. Samsung, Sharp, and others surprised Chinese producers with vicious price competition in flat-screen TVs, which quickly collapsed the demand for conventional TVs, bottoming out Chinese profits. Another way established MNCs are beating emerging players is on costs, as home appliance companies in the United States did when Haier tried to enter the U.S. market for midsize refrigerators.

Conversely, some emerging-market challengers are outperforming established MNCs in knowledge- and brand-intensive industries. Bharti Airtel has built the largest mobile-services operation in India by specializing in a limited part of the value chain (customer care and the regulatory interface) and outsourcing the rest, which freed up capital, made Bharti's cost structure more variable, and allowed the company to radically undercut advanced-market prices. Firms such as India's Suzlon Energy are also spotting opportunities to bundle ancillary services and products in which they have an advantage.

The authors point to these examples and others to suggest that conditions are right for aggressive global players to move outside their industry comfort zones.

Reprint R0811E; HBR Article Collection "Winning in the World's Emerging Markets, 3rd Edition" 12182

90 Teaming Up to Crack Innovation and Enterprise Integration

James I. Cash, Jr., Michael J. Earl, and Robert Morison

In the continuing quest for business growth, many CEOs are turning to their CIOs and IT organizations because technology is absolutely essential to two compelling sources of growth: innovation and enterprise integration. The speed of innovation often depends on the ability to coordinate across organizational boundaries. Innovations cannot reach a sufficient level of scale and impact unless they are integrated into the larger operations of the corporation. And yet, say recently retired Harvard Business School dean Cash, Oxford dean Earl, and nGenera director of research Morison, the two endeavors remain "unnatural acts": Far too many large businesses are better at stifling innovation than at capitalizing on it, better at optimizing local operations than at integrating them for the good of the enterprise and its customers.

To make both pursuits seem more natural, the authors recommend creating two dedicated, IT-powered teams: a *distributed innovation group* (DIG) and an *enterprise integration group* (EIG).

The DIG serves as the center of expertise for innovation techniques, considers new uses for technology already being developed inside the company, looks for new developments outside the company, and provides experts for internal innovation initiatives.

The EIG selects the most promising from among competing integration projects, provides resources to give them a strong start, and then folds them into the operating model of the enterprise.

Without such agencies, the authors maintain, innovation and integration won't spread far enough or fast enough throughout a large organization to keep pace with the smaller, younger, more technology-based competitors to which innovation and integration come much more naturally.

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102 | What Is a Free Customer Worth?

Sunil Gupta and Carl F. Mela

Free customers who are subsidized by paying customers are essential to a vast array of businesses, such as media companies, employment services, and even IT providers. But because they generate revenue only indirectly, figuring out the true value of those customers – and how much attention to devote to them – has always been a challenge.

Traditional customer-valuation models don't help; they focus exclusively on paying customers and largely ignore network effects, or how customers help draw other customers to a business. Now a new model, devised by professors Gupta, of Harvard Business School, and Mela, of Fuqua School of Business, takes into account not only *direct network effects* (where buyers attract more buyers or sellers more sellers) but also *indirect network effects* (where buyers attract more sellers or vice versa). The model calculates the precise long-term impact of each additional free customer on a company's profits, factoring in the degree to which he or she brings in other customers – whether free or paying – and the ripple effect of those customers.

The model helped an online auction house make several critical decisions. The business made its money on fees charged to sellers but recognized that its free customers – its buyers – were valuable, too. As competition heated up, the company worried that it wasn't wooing enough buyers. Using the model, the business discovered that the network effects of buyers were indeed large and that those customers were worth over \$1,000 each – much more than had been assumed. Armed with that information, the firm increased its research on buyers, invested more in targeting them with ads, and improved their experience. The model also helped the company identify the effects of various pricing strategies on sellers, showing that they became less price-sensitive over time. As a result, the company raised the fees it charged them as well.

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MANAGING YOURSELF

115 | How to Become an Authentic Speaker

Nick Morgan

Like the best-laid schemes of mice and men, the best-rehearsed speeches go oft astray. No amount of preparation can counter an audience's perception that the speaker is calculating or insincere. Why do so many managers have trouble communicating authenticity to their listeners?

Morgan, a communications coach for more than two decades, offers advice for overcoming this difficulty. Recent brain research shows that natural, unstudied gestures – what Morgan calls the “second conversation” – express emotions or impulses a split second before our thought processes have turned them into words. So the timing of practiced gestures will always be subtly off – just enough to be picked up by listeners' unconscious ability to read body language.

If you can't practice the unspoken part of your delivery, what can you do? Tap into four basic impulses underlying your speech – to be open to the audience, to connect with it, to be passionate, and to “listen” to how the audience is responding – and then rehearse your presentation with each in mind. You can become more open, for instance, by imagining that you're speaking to your spouse or a close friend. To more readily connect, focus on *needing* to engage your listeners and then to keep their attention, as if you were speaking to a child who isn't heeding your words. To convey your passion, identify the feelings behind your speech and let them come through. To listen, think about what the audience is probably feeling when you step up to the podium and be alert to the nonverbal messages of its members.

Internalizing these four impulses as you practice will help you come across as relaxed and authentic – and your body language will take care of itself.

Reprint R0811H

BEST PRACTICE

121 | When Teams Can't Decide

Bob Frisch

Leadership teams that can't reach consensus wait for the CEO to make the final call – and often are disappointed by the outcome. Frisch calls this phenomenon the *dictator-by-default syndrome*. Many companies turn to team-building and communication exercises to try to fix the situation. But that won't work, the author argues, because the trouble is not with the people, it's with the decision-making process. Attempting to arrive at a collective preference on the basis of individual opinions is inherently problematic. Once leadership teams realize that voting-system mathematics are the culprit, they can stop wasting time on irrelevant psychological exercises and instead adopt practical measures designed to break the impasse.

They must begin by acknowledging the problem and understanding what causes it. When more than two options are on the table, the scene is set for the CEO to become a dictator by default. Even yes-or-no choices present difficulties, because they always include a third, implied alternative: “Neither of the above.”

When the CEO and the team understand why they have trouble making decisions, they can adopt the following tactics to minimize dysfunction: Clearly articulate the desired outcome, generate a range of options for achieving it, test “fences” (which can be moved) and “walls” (which cannot), surface preferences early, state each option's pros and cons, and devise new options that preserve the best features of existing ones.

Teams using such tactics need to adhere to two ground rules. First, they must deliberate confidentially, because a secure climate for conversation allows members to float trial balloons and cut deals. And second, members must be given enough time to study their options and assess the counterarguments. Only then can they achieve genuine alignment. Reprint R0811J; HBR Article Collection “What Makes a Decisive Leadership Team, 3rd Edition” 12186

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EVEN WITH THE RIGHT DIRECTIONS, WRONG TURNS CAN HAPPEN



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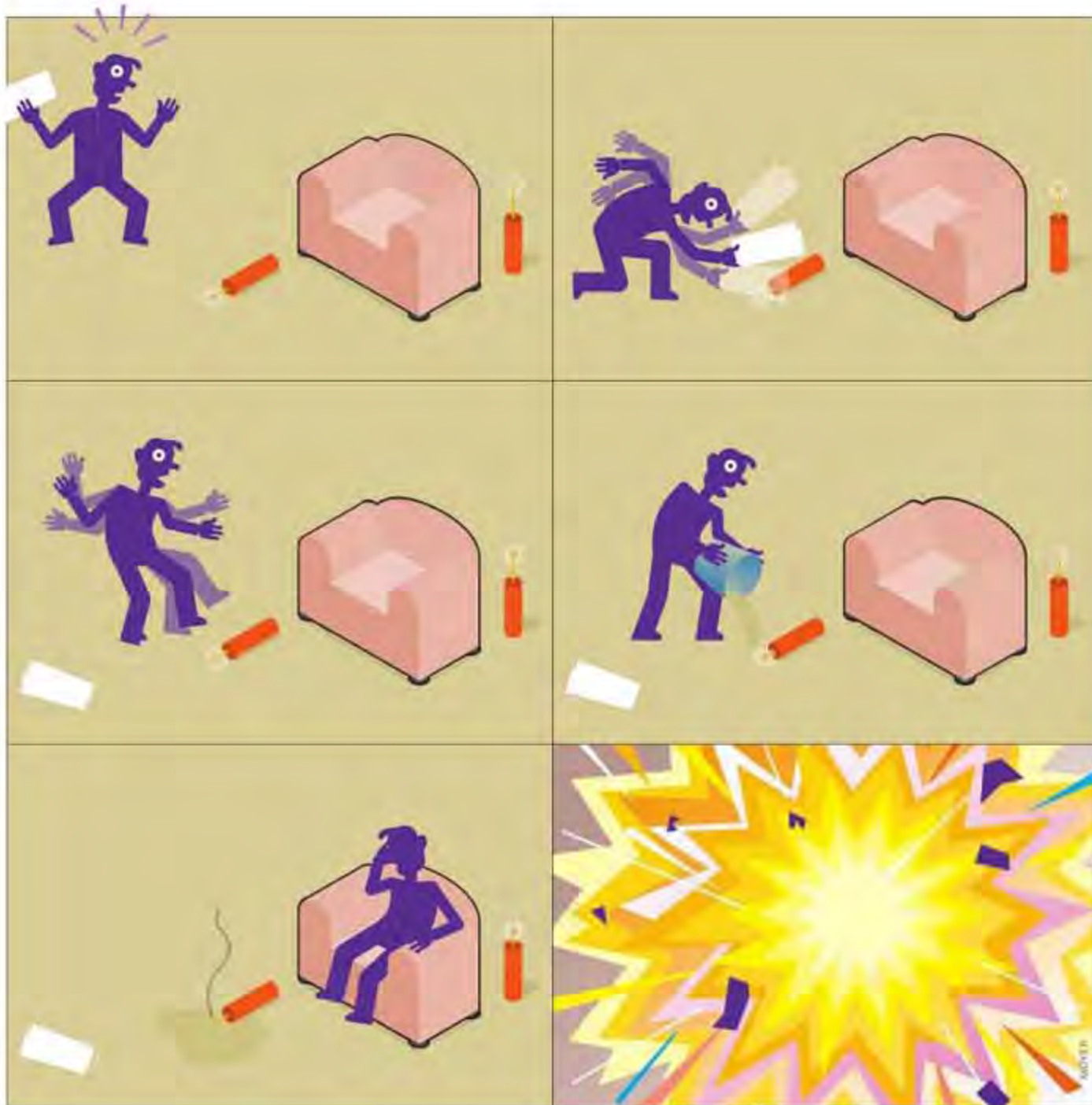
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Risk Aversion

AVOIDING RISK makes good sense, but we tend to overdo it in two different ways. First, we're bad at recognizing real threats. We pay too much attention to recent experience, news coverage, and the next few weeks and miss the real dangers. As David Myers says in his book *Intuition*, "What sticks in our mind and colors our judgment is our own vivid experience." Meanwhile, our most serious threats tend to be from things we haven't imagined or are further away in time.

We make a second error when we spend too much diffusing potentially dangerous situations. Although it works against our emotional intelligence, economists recommend conducting risk assessments to help avoid investing in activities with "too much safety." As Myers puts it, "Cost-benefit analyses can help restrain misguided...fears. Before spending billions to save hundreds while millions would save thousands, let's consider the risks and the costs. Rather than being driven by terror and hysteria, let's step back and think."

A wide-angle photograph of Lake Mead in Nevada, showing a vast expanse of blue water surrounded by arid, rocky hills. The water level is high, filling most of the visible basin.

1996

Lake Mead, Nevada

A photograph of Lake Mead in Nevada, showing a significant drop in water level compared to 1996. Large areas of dry, yellowish-brown land are exposed around the perimeter of the lake. In the center, a large rectangular structure, possibly a floating solar farm or a dam under construction, is visible in the water.

2008

Lake Mead, Nevada

2020 ?

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