Business Strategy Review

first THOUGHT

It was Japan, 1673. Hachirobei Mitsui opened a store that carried this banner: "CASH PAYMENTS AND A SINGLE PRICE". Previously, most stores sold merchandise on credit (incurring accounting and collection costs) after much haggling with buyers (which cost time). Mitsui's streamlined selling, and lower prices, really moved merchandise; profits swelled. He soon owned a chain of stores. He owed it all to change.

Change abounds in business. **Julian Birkinshaw** and **Stuart Crainer** (page 4) profile how one Microsoft team is changing itself and its Generation Y workforce. **Charles Spinosa, Billy Glennon** and **Luis Sota** help you identify, and perhaps become, a transformational leader (page 82). **Michael Jarrett** reminds us that becoming a master of change is never an overnight process; consider his "new change equation" on page 76.

We have a special section (page 68) on change with some new features. We've combed decades of change literature and compiled a Change Compendium (page 87), quoting a number of long-admired thinkers. This is accompanied by our own humble evaluation of the seven best books you can buy on managing change.

Of course, business change is also personal. Which is why **José Esteves'** revelations about corporate leaders who blog (page 62) is perhaps the best way to keep up on how top management thinking is changing. Parallel to this, we were curious about the current projects of major management thinkers and how their work could presage even more change. Twenty thinkers are profiled in "Coming attractions" (page 52), including **Vijay Govindarajan, Lynda Gratton, Gareth Jones, Philip Kotler, Nirmalya Kumar, Ed Lawler, Babis Mainemelis, John Mullins, Douglas Ready** and **Lamia Walker.** And you'll also hear about the latest work of **Peter Senge**, whose new book, *The Necessary Revolution,* is a call for global change to make businesses more sustainable. Our interview with Senge starts on page 71. As you can see, this issue includes thoughts on change and many other subjects critical to your success.

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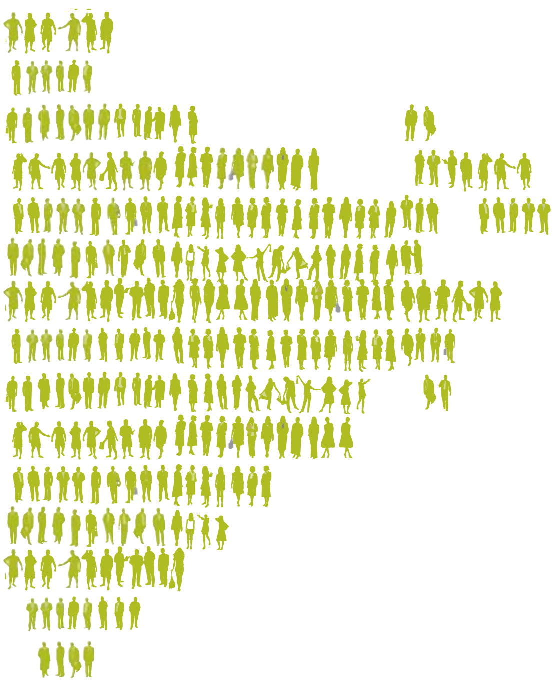

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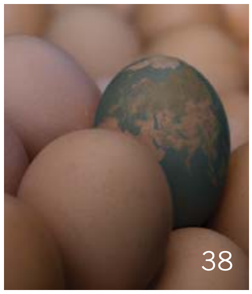

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Game on: Theory Y meets Generation Y

Julian Birkinshaw and **Stuart Crainer** look at a Microsoft team that is changing the way it works by incorporating the interests of its young employees to increase creativity and productivity.

Think of the most innovative high-tech companies. What comes to mind? Most people start with Google Inc. and then perhaps Apple Inc. After that, it's less obvious. Microsoft Corp. is usually overlooked in these discussions. Conventional wisdom views the software colossus as the innovator of the previous century and now the master of carefully orchestrated software development projects such as Windows and Microsoft Office rather than as a developer of creative and innovative working practices.

Think again. Ross Smith, an 18-year veteran of Microsoft and now director of the Windows Security Test Team, is working to show that innovative management techniques are alive and well inside the world's best-known technology company.

Smith leads an 85-person test team in the company's Windows division. The team works to ensure the quality of Windows security-related features. It may not sound sexy, but it is high-pressure, high-status work within Microsoft. Marc McDonald, the very first Microsoft employee, is part of the team. Others have chosen to join the team after successful development manager jobs elsewhere. Expectations are high as hundreds of millions of people trust – and demand – that features work correctly and Windows is trustworthy.

After Windows Vista shipped in 2007, Smith took over the Windows Security Test Team effort. As part of his preparation, he met individually with everyone on the team – all 85 people.

"As I was doing these meetings, I began to realize the depth of talent in this group. Over a third of the team had a master's degree or higher, which is very unusual. And from the annual employee survey, I knew people were feeling underutilized. The nature of our work is unusual – it is intense and painstaking, but it ebbs and flows, which means sometimes there's spare capacity in terms of brainpower, and even effort. And of course, if you've got your doctorate from Carnegie Mellon University and you're running some manual tests to verify a piece of code, it's logical you would feel underutilized. So it got me thinking about what we could offer these people in terms of figuring out how to apply that talent."

The team is filled with people routinely labeled "Generation Y." This time the broad brushstroke label actually applies. As a Millennial on the team puts it, "Despite everybody talking about how Microsoft is an old company, there's still a lot of young people being hired, and a lot of them are being hired because they want to be there. They are sharp and tend to do many things on top of their normal duties – a lot of the time this is what you have to do to get noticed." The testing team members live online, love competition, devour technology in any form and, perhaps surprisingly, are avid readers – particularly of books such as Malcolm Gladwell's *Blink* and James Surowiecki's *The Wisdom of Crowds.*

Add in the fact that Generation Y learns differently and embraces social networking tools, and the challenge to conventional management becomes clear. As one of the Windows Security team says, "Generation Y wants to work on cool, cutting-edge projects, and Generation Y wants to be recognized for its work by peers, family and friends." And if such projects aren't provided in the workplace, many will choose to find them in online communities and work on them – for free – in their spare time.

As Smith got to know his new team and started to understand what made them tick, he saw an opportunity to do things differently. "We wondered if we could bring that extra effort inside Microsoft's walls and share our human and corporate resources to encourage some of that innovation to happen right here. We wanted to create an environment where the team could have more freedom with the 'how' rather than be relentlessly preoccupied with the 'what'."

The challenge, in other words, was how to apply Theory Y to Generation Y. Theory Y says humans are intrinsically motivated to do a good job, and if the right conditions can be created, employees will give their discretionary time for free. Theory Y behaviour came naturally to Smith. Two decades at Microsoft had given him a good intuitive feel for how to get the best out of people. And he attracted a loyal following. "He genuinely cares about people, and in a very unique way. There's a lot of humour. He's really down to earth, and a lot of fun to work with," says Lori Ada Kilty, programme manager, one of Smith's closest colleagues.

Starting points

In early 2007, Robert Musson, a developer on the team, stumbled on a paper by John Helliwell and Haifang Huang at the University of British Columbia that examined the relationship among trust, pay and job satisfaction.

Musson reflected: "Trust in management is, by far, the biggest component to consider. Say you get a new boss and your trust in management goes up a bit at your job (say, up one point on a 10-point scale). That's like getting a 36 per cent pay raise, Helliwell and Huang calculate."

The team began to think about how trust worked in the Microsoft environment and noticed a mismatch between the general theories and the situation of his team. "When it comes to trust, there's a lot written in terms of innovation, risk taking, experimentation and managing failure, but we're very focused on a set of predictable deliverables. There's an emphasis on predictability, stability and reliability and that's at odds with what you read about trusting, innovative environments. We →

→ thought that if we could encourage managers to work to build trust on their teams, then that might lead to more satisfaction, more innovation, employee growth and so on."

People are more likely to have fun at work if they trust each other. With that realization, the team thought it had something tangible it could pursue.

Improving trust

Trust, of course, is a large and abstract issue – but one that lies at the heart of working life and working relationships. "It's like freedom and air," Smith says. "You know when you don't have it, but it's really hard to measure it and to know when you do have it."

The first step, therefore, was to brainstorm to identify the behaviours affecting trust behaviour that people saw in their day-to-day work. As this progressed, the team created some games and experiments with voting to try to prioritize the lengthening list and to learn more about what could be done to increase trust.

Add in the fact that Generation Y learns differently and embraces social networking tools, and the challenge to conventional management becomes clear.

At www.defectprevention.org/trust, readers can view one of the games the Microsoft team used to develop its trust model. Users are asked, "Which trust factor is more important to you?" and then given a series of two-option responses such as "Don't skirt real issues" and "Don't bury your head in the sand". Users can select from as many pairs as they like, then view the compiled results from all who participated.

The result was a better-ordered list of trust factors. The trouble with this approach was that it was situational – the ordered list might apply to me, but it might not apply to you, or, it might apply to me on Tuesdays but not on Fridays. More research led to the creation of a playbook for people to reference and use. Things like "be more transparent" or "demonstrate integrity" were highlighted. The challenge was to link these notions to tangible activity. Members of the team then worked to write up a paragraph on each trust behaviour. This information was then opened up as a wiki to generate community participation and build understanding. Around 40 per cent of the Windows Security Test Team actively contributed to this process.

Pizza with everything

To keep the dialogue open, the team started a weekly "free pizza" meeting in the autumn of 2007. It proved to be a powerful forum. As Smith explains, "These meetings started with trust and have evolved along with the programme. They can range from people presenting their ideas to brainstorming, but really, the main goal is to keep the programme alive and build relationships around the team. The structure is really flat – everybody's ideas get equal billing, and everybody's comments are valid. We try to make sure that there's no hierarchy in the room. It gives people a forum to share their ideas and to share the projects they're working on."

One conversation led to another. Some Web-based tools for sharing information about project status, submitting calls for help and promoting new ideas were introduced. "The hope is that people will vote with their feet for good ideas," Smith says. "There's no community rating system or voting for each idea. Ideas are like children – everyone loves their own. And we wanted the programme to support that. If you see an idea you like, you can just talk to the person who's listed on the site. This gave people another platform for promoting their ideas." By now, the team has had a couple thousand slices of pizza, devouring topics such as debugging techniques, improving customer feedback, identity theft, how to think creatively through problems, and new products from other teams around Microsoft.

Giving it a name: 42Projects

The spirit of learning, trust and respect for new ways of working was coming alive in the Windows Security Test Team, but it needed a name. They needed a brand to represent the changes that were happening. They settled on 42Projects. For the uninitiated, the number 42 is the answer to life, the universe and everything in Douglas Adams' cult classic *The Hitchhiker's Guide to the Galaxy.* In the book, it takes the Deep Thought computer more than 7 million years to figure this out – "'I checked it thoroughly,' says the computer, 'and that quite definitely is the answer. I think the problem, to be quite honest with you, is that you've never actually known what the question is.'"

The number 42 helped to capture the quirkiness of the team's approach and the broad objectives of the programme itself. It also tapped into the Generation Y spirit. During 2007 and 2008, the programme grew organically, and tentative steps led to a profound cultural shift within the team. As Jonathan Ng, a recent computer science graduate and software development engineer in Test observes, "The best thing about 42Projects is the fact that you can just jump right in and define your own role. Self-role definition in the context of a work career isn't really something that happened until recently."

What's more, it appealed to senior members as well. McDonald was Microsoft's first employee, a friend of Bill Gates in high school and a key member of the Windows Security Test Team. As he describes, "42Projects tries to recapture the feeling and passion you have at a small startup or at the beginning of an industry by breaking down the stratification of a large organization." The team also has a dozen senior Microsoft employees on the team with more than 10 years at the firm. The programme appeals to them as much as it does their Generation Y colleagues.

42New – Engaging with Generation Y

Another important step forward was to capture raw feedback from new employees. The 42New programme, as it became known, targeted employees with less than two years' experience to share their ideas in a separate forum. As Kilty explained. "We hire really intelligent people and when they first start, they are left to figure things out on their own. Many feel we don't necessarily take the time to hear what they have to say because they don't have a lot of experience. So we started a group called 42New. It's a forum where there are no managers, and new hires can get their voices heard. They get together, get their ideas out and talk about things that are bothering them or things that they would like to see. They bring a fresh perspective and the information flow is in both directions."

One of the members is Sowmya Dayanand, software development engineer in Test: "42New is an opportunity to ask questions and not be judged. Nothing is out of bounds. Often things make more sense when you understand the history and the vision in informal discussions without fancy jargon and PowerPoint presentations."

The output from this group goes directly to Smith: "It's been a terrific place to identify some obvious areas of improvement – for new hires and for everyone."

Playing games

Games, and the spirit of gaming, are fundamental to Generation Y. The importance of game playing as a means of learning was not lost on the team. Smith explains: "When a product needs a bit of a push toward a certain behaviour, building a productivity game around it can help. A common approach in the past was for the Windows Security Test Team to host a 'bug bash' for an evening and give a prize to the person who found the most bugs during the event. We've tried to take this a step further. Using games is a powerful method to influence changes in organizational behaviour, though it requires care in the design and use."

Ben Sawyer, co-founder of the Serious Games Initiative, a Washington, D.C.-based startup, concurs. "While everyone in the enterprise is chasing games for training, the real promise for games is in changing how enterprises work, think and administrate, which will have much more dramatic changes on productivity through games than the odd training efficiency. I sincerely believe that, and few people spend more time thinking about serious games than I do."

As an example of a productivity game in software development, team members might be encouraged to try a security feature and describe their experience or look for problems in other areas. Because this is not part of their regular job, they typically will not make the time to volunteer to do this, despite its effectiveness at eradicating defects. But, if a game is built around the activity, and each "player" is awarded points, or there is a leader board on display with the latest standings, then volunteerism and participation skyrocket. Games built around a goal like this have resulted in a 400 per cent improvement in participation levels for some activities.

The Windows Security Test Team looked for ways to build the principles of gaming into its work. For example, one team member had a desire to learn a new development technology and built a prototype of a customer feedback game. He was able to connect with another employee who was developing an idea to use native language speakers to help verify international versions of Windows. The two collaborated and built a game system where people can play games to validate localized text strings. "Our culture is competitive. People by nature →

> Trust, of course, is a large and abstract issue – but one that lies at the heart of working life and working relationships.

→ love to compete and play games and want to see themselves at the top of the leader board," says Mark Hanson, test manager.

Reading material

Even before Smith took the helm, one of the sources of inspirations for the team was the written word. Defying the Generation Y stereotype, a big portion of the team is composed of voracious readers. One book in their eye-opening library was Gary Hamel's *The Future of Management*. "It felt like he'd been sitting in our meetings," Smith said. The team started a book group called 42Books, which encourages reading and discussion on various texts, and blew their book budget, mostly centred on books about innovation, leadership and trust.

"You can learn a lot and stay current by just attending a book review," observes one Generation Y team member. "If you like what the book is about, then you can go read it."

The team had a visit from Mike Armour, author of *Trust-Centered Leadership,* and recently hosted a discussion with Adrian Gostick, one of the authors of *The Levity Effect.*

"When we heard from Mark Hanson at Microsoft [Windows] Security [Test Team] about the 42Books programme, our first thought was, 'Hey. Bill Gates wants to buy 42 million copies of our new book, *The Levity Effect'*," Gostick recalls. "Unfortunately, it really was 42 copies. But after speaking with Mark, we realized that Microsoft [Windows] Security [Test Team] was a real find. The leaders of the team had actually read the book and were working hard applying the techniques to enhance camaraderie, communication and creativity in the Windows Security [Test Team] environment. We joined one of their pizza-book-chat meetings via the phone and answered questions, laughed a lot and explained more about our research. This is one group that proves the findings of the million-person research study in *The Levity Effect* – it really does pay to lighten up."

All of this is linked to an evolving process of change. "We have had a few cases where someone has an interest in learning something and instead of going home and working on it, they have brought it inside. Whether it's a book, an idea, a project, a course – doing it here exposes them to more resources, people who've done that, used that technology before, as well as potential 'customers' for their end result," Smith says.

Trust, too, is constantly evolving. "We're giving people the latitude to go off and do their own thing. We trust them to do their regular jobs and to experiment, innovate and have fun. We're developing a level of trust where there's no required accountability that you need to log your time or provide an example of what you did during that day when you worked from home," Hanson says.

As ideas are implemented and gain popularity, the team works with other "incubation" efforts across the company to find more permanent homes for projects, or individuals may continue to plug along at their own pace.

> "The real promise for games is in changing how enterprises work, think and administrate, which will have much more dramatic changes on productivity through games than the odd training efficiency."

Spreading the word

Success has not come easy for the team. Dramatic change doesn't normally bubble up from the bottom. But there is now solid evidence that the change programme kicked off by Smith in early 2007 is paying dividends. Employee retention rates within the team are higher than they have ever been – an important factor in a specialist activity such as testing. Productivity numbers are improving as skill levels rise and people become more knowledgeable about each other's areas of expertise. Engagement and cross-team contributions are rising.

What's next for Smith's cultural revolution? How can the engagement he has created in his division be leveraged and scaled across other parts of Microsoft?

Word is starting to get out. In September, Smith was given the chance to post his views on the Microsoft internal blog site, which is open to Microsoft's 60,000 employees around the world. With only one open slot every week or two, this was a big deal. His post focused on the spirit of 42Projects: "It was basically, think back to the day you started at Microsoft and the energy you had, the feeling that you were there to change the world. I asked, 'Do you still feel that way today?' And then I touched on some of the themes of 42Projects: trust and empowerment, those things. That these things can start with anybody. You don't need an executive to say, 'OK, let's all start to trust each other.' You can actually take steps yourself. If you improve how you manage work, the profit potential is unlimited." The blog got a lot of responses from people across Microsoft, most of whom added their names (the usual format is anonymous). So people were willing to put their name out there along with their comments.

Jan Nelson, programme manager for the Windows International and Management Excellence Leadership Team, describes his reaction: "What I find most valuable about the idea of a 42Projects community is the potential for anyone, irrespective of hierarchy, to be creative, create new tools, products, work on team dynamics, whatever. 42Projects is an effort to provide an open framework where it is OK to try stuff out and publish what worked and what did not without fear of performance assessment. In a meritocracy, this is a fresh and rare opportunity that needs closer examination and support."

Mike Tholfsen, a test manager in the Office Division adds, "Finding 42Projects was like walking into a haven of all the things I hold dear – building trust, experimenting with new ideas in management and group dynamics, trying out new innovation concepts, and a little bit of rule breaking."

Interest in the work of the team continues to spread across Microsoft, and it has established a Friends of 42Projects e-mail alias for people to stay connected with its progress. (Readers can join Friends@42projects.org by going to www.42projects.org/4.html.)

Lessons: How others can learn from Microsoft

Use games to get the work done

The use of games in the business world is long established. Game playing is a key ingredient of Generation Y. By using games – often comparatively simple ones – the Microsoft team has tapped into the culture of its own employees and provided a motivational level of competition and enjoyment to sometimes mundane tasks. Even a $100 meal card as a prize for a game can concentrate minds in a different way. This is where Theory Y meets Generation Y.

The journey is the destination

Trust is an important business and personal issue. By involving people in thinking about trust, the Microsoft team ignited debate and heightened consciousness about individual behaviour. At the same time, the team has not identified a prescriptive list of the characteristics of change. Change and values are rarely black and white. Indeed, exploring the gray areas is where the real fascination – and innovation – lies.

Volunteers rule

Change may require leadership, but it is a very different brand of leadership to that conventionally used by most corporations. At Microsoft, the 42Projects consortium has an opt-in culture. According to Smith, "One of our guiding premises is that we're learning, we're experimenting, we're humble, we're open to feedback – and this is all opt in. We didn't send a big memo out that says, 'OK, everybody start trusting each other.' So it's been very important to retain that theme throughout. We have the rigor of the product development cycle, so it's very important that people feel they can choose how frequently or how much or how little they want to contribute because it varies week by week, person by person."

In fact, participation is high – the majority of the team participates in some form every month.

A cultural revolution is as much in the minds as the actions of employees

The changes discussed are not founded on actions, but rather they are based on encouraging people to think – and to think differently. People are constantly thinking about how to do things better or about the deficiencies in the way things are done now. This promotes active thinking about how to improve and create forums for people to voice their thoughts. No idea comes fully baked, so an atmosphere that supports gestation is critical to getting the ideas out of people's heads and implemented.

Change does not come from the top

Smith is not a senior executive at Microsoft, but he has kick-started significant cultural change among his team of 85. He didn't ask for permission. "The feeling is that that this will snowball. People take a step to improve one thing, and they see that one improvement make a difference or save them time, and they follow up with a bit more, and it just continues to grow. This is an ongoing experiment →

> "Our focus is on making the employee experience on our team the greatest that we can make it and from that comes innovation, productivity, and employee satisfaction."

→ in the practical application of management innovation techniques. We are learning – humble and receptive to feedback as we go. It is a grassroots, organic movement."

Robin Moeur, a retired Microsoft director who's acting as a consultant to the team, provides the context: "It's important to remember that rather than this being any sort of manifestation of what would be regarded as a conventional approach to change inside an organization, which suggests by definition that it's top-down, this is from Ross, his peer group and entire team taking the initiative. It is not the consequence of the CEO or executive leadership team issuing a mandate or direction. Can it scale beyond 85? Can it be cloned? Can other groups be given some guidance and some of our key learning? We believe that it could be. It's very organic. It has common denominators in it that people are looking for almost regardless of their level in the company, their time at the company or the kind of work that they're doing. People do want to know that trust exists. They do want to know that they can achieve great things and that they're going to be supported in doing so."

Smith believes that the experiment is a continuing work in progress. "We're still experimenting. We're still learning. Every day we're learning what works and what doesn't. Our focus is on making the employee experience on our team the greatest we can make it, and from that comes innovation, productivity and employee satisfaction. Management becomes easier because people are motivated. It works at every level. We've got great, talented people. Now we just get out of the way and build the environment in which they can deliver on their potential." ■

Resources

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The future belongs to us all

Fujitsu executives **Marc Silvester** and **Mohi Ahmed** recently co-authored a book about delivering service. **Tom Brown** talked to the authors about how far one can take the concept of "living service" and where their own passion for the subject first began.

Zappos, a US company that sells shoes over the Internet, is a good place to start. Five years ago, it had around $70 million in sales; this year, it projects over a billion dollars. It offers customers a stunning selection of shoes – in the millions – but what it really offers is *service.* Every shoe purchase comes with free shipping, both from Zappos and back to them, if you're not happy with your purchase. You can order online or you can call them at a toll-free number. When you do, you get a real voice on the other end of the line and that voice has been trained to spend as much time with you as *you* need. One never feels rushed talking to a Zappos salesperson.

Moreover, should you elect to return a purchase and fill out the quick online form (they save your data to speed up future purchases or any returns), one of the last questions asked by the seller is whether there was *anything* Zappos could have done to make your buying experience better. Zappos is so intent, so driven, so relentless in providing superb service to customers that new employees are – after their initial training regimen – actually offered a bonus to quit. Online business journalist William Taylor (Harvard Business Publishing "Discussion Leaders", May 19, 2008) answered the question you're now asking:

> Why? Because if you're willing to take the company up on the offer, you obviously don't have the sense of commitment they are looking for. It's hard to describe the level of energy in the Zappos culture – which means, by definition, it's not for everybody. Zappos wants to learn if there's a bad fit between what makes the organization tick and what makes individual employees tick – and it's willing to pay to learn sooner rather than later. (About ten per cent of new call-center employees take the money and run.)

But whether talking about customer service from an online or from a bricks-and-mortar store, Zappos is the exception, not the rule. And that bothers Marc Silvester and Mohi Ahmed. A lot.

Silvester is the Chief Technology Officer for the services division of global computer maker Fujitsu. He is a software engineer by training. With the company since 1986 and based in the UK, he now leads the company's global services programme.

Ahmed came to Fujitsu by joining its corporate Human Resources strategy unit in 2001. Prior to that, he worked for other major industrial organizations in Japan, Canada and the US; he also began working and was involved in the company's executive development programme. Today, he's Director of Strategic Development for Fujitsu's service organization.

These two executives from the computer industry have done a rare thing. They set a course to both define the essence of great customer service in the 21st century and explain how it's achieved – for all companies, not just their own. The result is *Living Service: How to Deliver the Service of the Future Today* (FT Prentice Hall, 2008), a book they wrote after spending a great deal of time thinking about the reasons why service is poor in so many companies and how it could become, if you will, the ultimate competitive edge. (See related story: *Business Strategy Review,* Spring 2008.)

In their book, they assert that the modern standard for customer service must embrace three words: mind, body and soul. To do this, companies must transition from static service to "living" service; they need to change the game and redefine the state of the art of customer service for their own industry. This means that companies must engage customers in revolutionary ways, accelerate the opportunities a customer has to utilize a company's products fully, deliver on any and all service promises and work with customers to co-create each other's future. In sum, this comes down to maximizing the collective energy that can only happen when a business and a customer "click", whether that interface be online, over the phone or face-to-face.

Silvester and Ahmed cite the Japanese parallels to mind, body and soul: *kokoro, karada* and *tamashii* – but the book is a healthy blend of Eastern and Western thinking. In fact, the prescriptions the two men provide for delivering the service of the future *today* come down to a list of to-dos that make sense in any culture:

Focus on people Customer service must be designed and operated to meet the needs of the people it serves.

Optimize technologies/processes and empower employees As society evolves, methods for interacting with customers change; service agents need to be capable of doing their jobs by having the right technology and by being able to use it to boost customer satisfaction.

Make service transparent Processes and technologies should be made open so that those responsible for delivering services can spot the weakest links in the service chain.

Deliver invisible excellence Customers take the greatest delight when they can't see the mechanisms of customer service.

Focus on elegant simplicity There is nothing complicated in urging employees to do more than they're required to do, perhaps even more than they're asked to do. Such service is elegantly simple.

→

People

→ **Adapt and evolve** Great service anticipates and responds to the needs of customers now and in the future. Employees become excited about customer service when they have some flexibility to work with customers to co-create the best way to do business.

Demand the best of everyone Customer service today requires everyone in the company to understand how he or she contributes to making customers satisfied – even if they don't have personal contact with the customer. Also, service providers need to consider social, economic and environmental sustainability as well.

What brought the authors to become scholars and spokesmen for state-of-the-art service is a story in itself. That is why we asked Silvester and Ahmed to tell the tale in their own words.

How does one go from being a software engineer to a customer service advocate?
Silvester: I have been in business 22 years, and a lot of my time has been spent with bits and bytes. But the digital world these days is more than simply providing a customer with a well-engineered computer augmented by well-designed software. Providing the latest technology in a box, even if that's done flawlessly, is a rather static form of customer service. What excites customers, and not just in the computer/IT industry, is a relationship – one that is ongoing and one in which their developing needs are constantly monitored and addressed by manufacturers and sellers. I soon found out that *living service* fascinated and excited me as well. It's now what I do, almost exclusively.

Almost exclusively?
Silvester: I've actually colour-coded the activities on my calendar and found that, in any given 10-hour day, I spend perhaps 20 per cent of my time on typical chief technology officer technical work. The rest of the time is spent on people-to-people, customer-related work.

Mohi, you started from a different point but are now focused on customer service as well. How did that happen?
Ahmed: My background has always been focused on issues like corporate governance and innovation management. These areas are people-intensive fields. And that led me to realize that customers are central to every aspect of operating a business. Now, that sounds like nothing more than common sense. But it amazes me, to this day, how many managers, employees and businesses overall are insensitive to the people who should be driving their business: customers!

To what extent is your book exclusive to the computer/IT industry?
Ahmed: Good question. Marc and I have studied customer service in a wide array of industries, and we share many stories in our book that are not computer or IT-related. We believe that the lessons we have learned are applicable to any industry, big or small, any geography and any culture.

But is there anything new to be learned about customer service? After all, people have been talking about the concept for a long time.
Silvester: We believe that customer service has changed and that customers are expecting even more change. Many people in many industries see service looking through a pair of management glasses that are far too traditional. That is, many people think that customer service is defined by the people making or selling the product. As such, it's a kind of top-down relationship with the customer, one in which the business provides service only to the extent that it feels it's good for the company or to the extent that any service has been contracted and agreed-upon at the time of sale.

Providing the latest technology in a box, even if that's done flawlessly, is a rather static form of customer service. What excites customers, and not just in the computer/IT industry, is a relationship.

But now it's different?
Silvester: Yes, and in many ways. To start, such traditional thinking is rooted, consciously or not, on a single buy-sell relationship. But most business today thrives on repeat business. And that means that one must think of a customer relationship as a long-term relationship, almost like a marriage. This changes everything.

In a long-term customer relationship, it is imperative that the company form a high level of common understanding with its customers. This would include, of course, the traditional business terms and conditions aspects, the contract that starts the relationship. But that's not the heart of customer service. Businesses now must go beyond the basics. Service now might include considerations such as how people will be trained or developed to use one's product, how something you sell fits into the strategic vision of the customer, how a product aligns with concerns such as sustainability, environmental impact or social benefit.

You researched many industries to derive your insights. How much of your point of view was influenced by your work at Fujitsu?
Ahmed: Well, of course, we were influenced not only by the company we work for but also by the Japanese society from which Fujitsu grew. In an Asian organization, there's always a family perspective about how things operate. In a sense, one could say that Japanese organizations encourage everyone to help

So "living service" is…
Ahmed: I would repeat here what we say in the book. Living service is a progressive way to sell, solve, deliver and innovate services. It is the essence of elegant simplicity; and, when done right, living service is all about delivering invisible excellence. Also, living service is always about fitting the service to the customers, not trying to fit the customer to the service.

Elegant simplicity? Invisible excellence?
Silvester: These are not just catch phrases to us. In fact, we would argue that, if you don't understand these concepts, you really don't understand the modern definition of customer service. Let me explain by going back to our own base of experience.

When we get the chance to work with a new company on its information technology needs, it's amazing how many CEOs and chief information

People

You may be thinking mainly about how to make your business work better, and that's certainly the right thing for a manager to do. But there is, really, a very small leap from thinking about that to thinking about how to make the planet work better.

run the company. This means, in a fundamental sense, that it is the duty of every employee to come up with the best ideas for how to keep the organization on the path of progress. And, if there are two things that are special about Japanese companies, I would argue that they are the widespread emphasis on people and continuous innovation and continuous improvement. We certainly aspire to that in Fujitsu.

Silvester: Yes, and to add to Mohi's comments, I would say that 21st century customer service is, as we discuss in this book, a coming together of the best of Eastern and Western cultures. If we can take the *art* of customer service – the Eastern sense that businesses and customers must be married in order to achieve common goals and objectives (and thus they must communicate in unparalleled ways) – and blend that with the *science* of customer service – the Western emphasis on systems that can ramp up a good idea to mass proportions, then we have a new definition of the concept, to be sure.

Ahmed: We see our book as this blend of art and science; we see the need for customer service to be an applied science.

officers say the same thing to us: they don't want to be hassled with the technology, the machinery or the software programming of the company's computer systems, they just want the phones to be answered, their website to not stutter, emails to flow, production to be on schedule, shipments to be shipped and invoices and bills to both be paid in full and on time. Now, the people we talk to aren't being dismissive of the importance of IT in the lives of the company and its employees. They're making a much more central point.

Ahmed: We have reached the point where true customer service is all about meeting a customer's needs no matter how unplanned or unexpected those needs might be – and to do that without fanfare or grandstanding. In the book, Marc and I tell the story of someone on a Virgin Atlantic flight who found herself having a sharp pain in her head when the plane began its descent to land. It turned out that it was a matter of blocked sinuses, but the crew mobilized in seconds to provide menthol, a warm towel and drinking water to ease the sinus pressure. Then they alerted the ground crew to provide assistance in getting the passengers' →

People

→ luggage through passport control; but, more importantly, they also had a doctor and a wheelchair on hand in case it was needed. And all of this happened in the 20 minutes before the plane landed.

Silvester: What Mohi just shared is not just a story about how to run a good airline. Whether it's a customer with a headache on an airplane or a customer whose website won't process orders and is in a panic, or a customer who desperately needs an oil change to take an extended driving journey and just remembered one hour before the car dealer closes, the principle here is that people need, expect and are most happy to pay for great customer service.

Ahmed: And great customer service is always remarkably simple and elegant; when it occurs, it appears as if the airline had been planning all along for an emergency sinus problem, the computer company was just waiting for a locked-up website or the car dealer standing by for an emergency last-minute oil change. This is worth repeating: *true customer service is all about meeting a customer's needs no matter how unplanned or unexpected those needs might be – and to do that without fanfare or grandstanding.*

One senses in your passion for this subject that customer service is more than just a management concept to both of you. Is that correct?

Silvester: No question about it. Mohi and I added an epilogue to our book that tried to emphasize just how strongly we feel about living service. It really comes down to this: good customer service is about making a difference for others on our planet. We'd be the first to admit that business books aren't the usual places to find messages about social, economic or environmental sustainability. But we believe that business books – and, more than that, businesses themselves – can actually become models in these aspects of living and working together.

Ahmed: As much as most of us in the business world are transfixed by our daily workplace challenges, there's a much wider, deeply organic and global challenge facing all of us. You may be thinking mainly about how to make your business work better, and that's certainly the right thing for a manager to do. But there is, really, a very small leap from thinking about that to thinking about how to make the planet work better.

Silvester: When we talk about concepts such as becoming more people-focused, optimizing processes or technologies, making service so transparent that it's literally invisible to those benefiting from the service, innovating continuously, and adapting to the needs of customers, whenever and wherever they occur – all of these concepts are just as much about making our world work more smoothly and happily as they are about making your business operate more handily and profitably.

Ahmed: As we say in the book: we invite individuals as well as organizations of any discipline, any culture and any geography to join us in co-creating a sustainable future, utilizing the principles of living service. It will surely be a better future if we all have a hand in shaping it. ■

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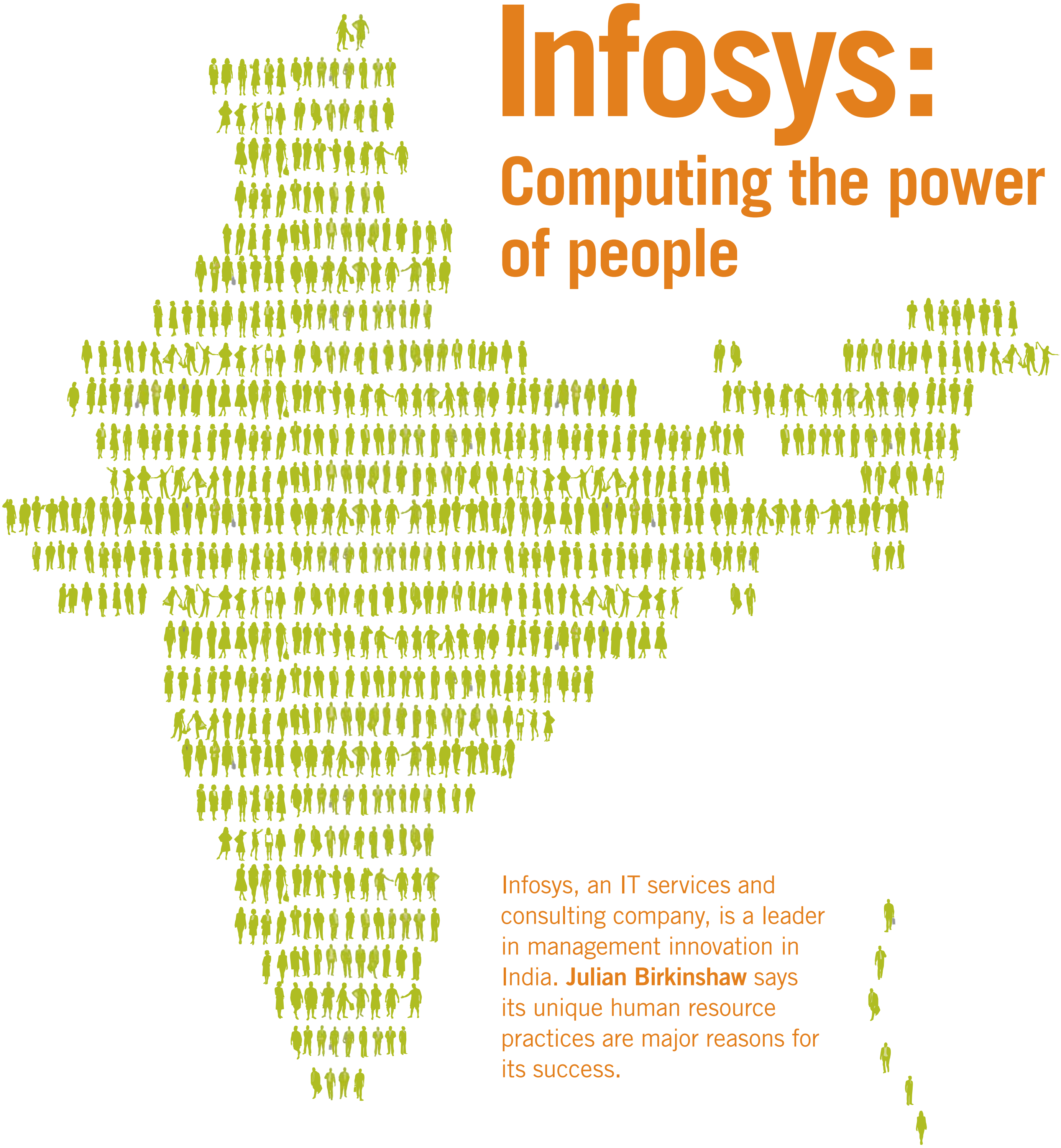
Infosys:

Computing the power of people



Infosys, an IT services and consulting company, is a leader in management innovation in India. **Julian Birkinshaw** says its unique human resource practices are major reasons for its success.

Where should you look if you want to find innovation in the workplace? One approach is to examine self-styled creative companies like Google who were born with different DNA from the rest of the world. Another is to search for the maverick individuals who follow G.B. Shaw's famous dictum that the reasonable man adapts himself to the world, while the unreasonable man tries to adapt the world to his point of view.

A third approach is to seek out companies that find themselves managing on the edge – facing extreme or unprecedented challenges that force them to think afresh about traditional ways of working. For example, lean production emerged from the pioneering efforts of Toyota and other Japanese companies in the 1960s because they were faced with limited supplies of raw materials and space. In such circumstances, necessity rather than conscious choice is the mother of innovation. It is the same principle in technology innovation: oil well-drilling technology is led by the companies who have the most problematic oil fields, not the biggest reserves. And the developments in electric, fuel cell and hybrid cars typically emerge in countries where petrol prices are high.

So where should you look to see innovation in human resource practices? How about a company that is experiencing 50 per cent year-on-year growth, to which more than 1 million people apply for jobs every year, and with a median employee tenure of two years? How about a company in an emerging economy that has poor infrastructure, a highly diverse workforce and no tradition of international success? And how about a company that is operating in a booming and fragmented industry that reinvents itself every three to five years?

Infosys, the Indian IT services and consulting company, is exactly such a company. It has achieved prodigious levels of growth since the early 1990s and has had to come to grips with unprecedented challenges in hiring, developing and managing its workforce. Faced with these challenges, Infosys has developed new ways of working. It hasn't thrown out the traditional rule book altogether – in fact the company is pretty savvy about learning from the good practices of client and competitor companies – but Infosys has reached, and in many cases pushed forward, leading-edge practice in human resource management.

Engineering growth

Seven Indian IT engineers founded Infosys in 1981. Among them were Narayan Murthy (now Non-Executive Chairman and Chief Mentor), Nandan Nilekani (former CEO and now Co-Chairman) and Kris Gopalakrishnan (current CEO and Managing Director). Ten years after its founding, Infosys was still operating as a fragile start-up, but a commitment to international expansion enabled the company to catch the tsunami of growth in demand for IT services in the 1990s.

Infosys led the charge of Indian companies onto the world stage in such industries as systems integration, business process outsourcing and IT consulting. It was the first Indian company to be listed on NASDAQ, and it was able to capitalize on the highly educated but relatively cheap Indian workforce years before competitors such as IBM and Accenture could. And by developing a Global Delivery Model (GDM) across 38 global centres that allowed it "to produce where it is most cost-effective and sell services where it is most profitable", Infosys offered a set of services that few competitors could match.

The last few years have seen dramatic growth – $3.9 billion revenues and $1.1 billion net profits at the end of 2007, compared to $1.59 billion revenues and $419 million net profits in 2005. Employee numbers have grown equally fast, from 52,715 employees in early 2006 to 80,501 in September 2007.

As Nilekani observed: "Infosys' goal has always been very consistent: it is to stay ahead of the next big trend." To do this, the company has focused on getting the most from its employees. As Hema Ravichandar, former Senior VP of Human Resources, put it: "It was our emphasis on transparency, communication and employee connect that set us apart from other organizations."

Fast evolution

Like any fast-growth company, Infosys has gone through several major transitions in its human resource policies and processes. In the early days while the company was small, HR systems were ad hoc. But high growth created an array of challenges. Employees' technical abilities started to get ahead of their managerial abilities, so in the 1990s the company developed a strong human resources department and an education and research department to professionalize its workforce, build skills and create loyalty. Another challenge was the limited number of computer science graduates from Indian universities, so Infosys hired graduates with other backgrounds to broaden its talent pool. With the emergence of the Internet, online recruitment systems and a corporate Intranet were developed. Once this platform was in place, a series of additional initiatives followed around issues such as diversity and quality of work life, attracting new types of employees and linking HR practices to the broader strategic goals of the company.

In fact, over the last two decades, Infosys has been a consistent leader in management innovation in India (see sidebar). Let's look at Infosys' practices in four areas, before returning to the broader issue of how they emerged. →

→ Hiring and getting the workforce up to speed

Infosys is one of the top employers of Indian graduates, but is relatively unknown outside the country, so the company faces two opposing problems. One is how to cope with overwhelming numbers of high-quality Indian applicants – 1.3 million last year. The other is how to build awareness of and interest in Infosys globally so that the quality and size of the talent pool continues to rise.

Take the Indian side of the story first. How do you select 17,000 employees from an annual applicant pool of more than a million? The short answer is automation. Somnath Baishya, a corporate HR manager, explained that would-be employees complete an application form online. The applications are then screened, and approximately 10 per cent of the applicants are invited to take an online test of their written and technical skills. These tests are conducted by an external vendor, which has the capacity to test up to 10,000 across several cities on the same day. Offers (to fewer than one per cent of the applicants) are made on the basis of this test. Infosys pioneered online recruitment, and its approach has now been emulated by many of its competitors.

But an equally important element of efficient hiring is a clear point of view on the type of person desired. One key attribute at Infosys is what they call learnability, the ability of an individual to derive generic learning from a specific situation and apply it to a new unstructured situation. Things change so quickly in this industry, the company realized, that there is little point in focusing on mastery of a particular computer language or customer sector. Instead, it needed people who could thrive in a changing environment and who enjoy mastering new languages and new challenges. The emphasis on learnability also made it possible to hire graduates without strong IT backgrounds, as such skills are easily learnable on the job.

With a high level of demand, Infosys found that it was struggling to find enough good new recruits, so a number of initiatives were started to grow the applicant pool. An internship programme, InStep, was launched in 1999 to attract students from the world's leading business schools. Over 500 students from Harvard, Stanford, London Business School and others have spent a summer working at Infosys. "These students bring cultural diversity to the workforce, and they help to spread the word about working for Infosys," explained Bhavna Mehra, the head of Global Academic Relations.

In 2004, the company developed its Campus Connect programme, a series of projects in collaboration with 300 universities in India and overseas, designed to increase interest in Infosys among undergraduates and to help gear course curricula towards the company's needs. Baishya described how successful this has been: "Campus recruiting outside India began in 2005, with a first batch of US graduates starting the following year, and a first batch of UK graduates starting in 2007. More lateral hires from other companies were brought in, and now they number 30 per cent of the total pool of recruits, 40 per cent of whom are referrals from other employees." Again, the referral and lateral hiring processes are conducted online.

Allocating talent and promoting productivity Infosys has fine-tuned its induction process for new recruits so that they get trained and ready to work in less than four months. New employees, dubbed Infoscions, arrive in batches of around 500, three groups per month; and they are immediately sent to Infosys' educational facility in Mysore for 16 weeks of training in technical and soft skills. The Mysore facility is the size of a small university with 200 faculty and space for up to 11,000 employees at a time. As the employees near the end of their training, they use an online system to indicate their job preferences (technical specialization, but not geographic location); and the online system matches them to jobs. For those who don't like their posting, there is a "swap portal" online to facilitate swaps between locations.

Geetha Kannan, Vice President for Human Resource Development, explained: "For initial postings, it is easier just to make assignments; but we are now moving to an online marketplace for jobs, a sort of eBay model, where after a couple of years our higher-rated employees are encouraged to apply for openings. We also prioritize those individuals who have to move for medical or personal reasons." The online job marketplace is tied into another Infosys system called Career Central, which is a database of individual competencies, trainings and certifications.

> Infosys has fine-tuned its induction process for new recruits so that they get trained and ready to work in less than four months.

Once employees arrive at their first placement, there are new challenges for the company – how to make them feel at home, often in a new city, and how to make them productive. Infosys has developed a sophisticated process for welcoming new hires. Kirti Vardhana, a manager in the employee relations department, explained: “We put on a wide range of induction events, sports clubs, movies, quizzes and cultural activities, all designed to help new Infoscions build a life in a new city. There is a well-being initiative called HALE (Health Assessment and Lifestyle Enrichment Plan) that includes cardiac health checks, safety talks, online stress tests and so forth.” Major locations have four or five HALE activities per month for employees. There is also a new initiative, HEAR (Hearing Employees and Resolving) for managing grievances more effectively.

All of these activities are designed to make life comfortable and familiar to Infosys' new recruits, similar in many ways to a university campus, but one with strict rules and high standards of performance.

Building bonds and creating loyalty The median tenure of an Infosys employee is just over two years, a function of the rapid growth of the company; the turnover rate is approximately 15 per cent per year (a high number, but still below the industry average). So how does the company create loyalty and engagement among such a rapidly changing group of people?

Infosys strives to make itself a great place to work. Salaries and perks are excellent by Indian standards, training is first-class, and there are opportunities for rapid advancement. Infosys works particularly hard to attract a diverse workforce. A Diversity Office was set up in 2003, and as Srimathi Shivashankar, the head of this office, explained: “We sponsor a vast range of programmes, including IWIN Circles (women's support groups), satellite offices in downtown areas to make it easier for mothers with small children to work for Infosys, and a diversity ‘dashboard’ to provide a graphic indicator of the performance of each business unit on diversity measures.” Female employment at Infosys is 31 per cent, higher than that of its peers but still below what the company would like.

The company has developed a strong culture, as captured by the acronym C-LIFE (Customer delight, Leadership by example, Integrity and transparency, Fairness, pursuit of Excellence). These values are brought to life during the induction process through case studies and discussions. And there are annual Awards for Excellence events, held simultaneously in 15 locations around the world, during which employees are awarded prizes for excellence in such areas as project management, account development, innovation and social conscience.

The company is actively looking for ways to improve the quality of its moral contract with employees to help them get the best out of their situation. Consider, for example, a recent initiative called Career Clarity. Perhaps because the company hires the best Indian graduates, some of the new employees developed unrealistic expectations and demands about how quickly they might rise through the ranks. So a two-part system was put together: first, an online form completed by employees about their expectations and aspirations; second, a session with a counsellor who compares their personal expectations with benchmark data for others at the same level and rating. These sessions help counsellors to recalibrate individuals' expectations if they are wildly optimistic.

Career Clarity was being pilot tested at the time of writing. Raj Reddy, a corporate HR manager, explained: “Its success will be measured on two dimensions: the extent to which aspirations are actually met and by the overall employee satisfaction Litmus test.” (Litmus, by the way, is also an acronym: Let's Interact on Themes that Matter to Us).

Another initiative is a segment on the company website called “Ask Kris”, which is an opportunity for employees to ask any question directly of the CEO. As questions are asked, others rate how important they are, those getting the most votes gradually moving up the table. Once a month, Kris then answers the most important and highest-ranked questions.

> Notwithstanding its strong collaborative culture, Infosys is a highly competitive place.

Building a high-performance workplace The final element in Infosys' human resource strategy is to turn employee engagement and potential into high performance. There is an important extrinsic element here. Stock options were introduced in 1994 as a way of retaining the company's brightest talents rather than losing them to US competitors. Since 2003, the company has moved away from options and instead has offered a much higher level of incentive pay, particularly among the 200+ vice presidents, for whom variable pay is now as high →

Best practice

→ as fixed pay in some years. Employees have elements of their pay associated with individual, business unit and corporate performance. And, since 2000, the company has moved from a simple promotion model based on tenure in the company to a meritocratic model with clear role definitions and competency assessments. "There is now a high-performance work ethic," observes Reddy.

Notwithstanding its strong collaborative culture, Infosys is a highly competitive place. It is full of high-achievers who have always been at the top of their class and expect to continue to be there. Employees are rated on a 1-4 scale, on which 1 is highest. In the first year or two, most people are rated 1 or 2 (otherwise they wouldn't have been hired), but a forced curve is gradually introduced and individuals are told exactly how they are positioned in their peer group. The company has used 360-degree feedback on management performance for many years, dating back to a 1992 initiative from Murthy in which members of the management council were asked to evaluate each other's performance. And a recent initiative on goal alignment was introduced to better link individual performance to the balanced scorecard for the business as a whole.

Ravichandar sums up Infosys' approach to employee engagement: "We provide learning value-add through our training and on-the-job learning opportunities that constantly 'stretch' employees, financial value-add through competitive pay and incentives, and emotional value-add through our strong culture."

Building management innovation

This discussion of Infosys' human resource practices is far from comprehensive, but it illustrates the company's desire to develop best practices. And there has been plenty of external validation of its successes, including the 2007 Optimas award from Workforce Management and the 2005 and 2006 "Best Company to Work for in India" award from BT-Mercer-TNS.

Where do Infosys' management innovations come from? The company does not have a systematic approach. Instead, it relies on the initiative and careful attention to detail of its senior human resource team, around four themes:

Constant reinvention Infosys is a young company, and its founders are still active. The early stories of bold growth and radical transformation are widely known, and they create a strong culture for change. Murthy himself was responsible for several of the big human resource initiatives of the last decade, including the Diversity Office and the Global Internship Programme. Other senior executives aspire to be equally progressive. Infosys runs

People time

Mid-1980s Infosys campus in Bangalore built, the first of its kind in India. Employees help design it, including sports and leisure facilities

Mid-1980s Infosys recruits non-computer graduates from the major Indian universities to widen its talent pool

Mid-1980s "Learnability" introduced as a key attribute to look for in selecting new recruits

Early 1990s Human Resource and Education & Research departments created

1992 Executive peer rating system for management council established to create greater self-awareness of skills and to encourage higher quality management

1994 Voice of Youth initiative introduced, in which five or six high-potential employees under the age of 30 are invited to join the management council on a rotating basis

1994 Employee stock options offered to help retain the best employees

1995 Petit Infoscions initiated, annual event for families at which children with top grades or extracurricular achievement receive awards

1999 Chat with Nandan introduced as opportunity for employees to ask questions directly of the CEO

1999 Recruitment process placed online and outsourced to external providers to cope with the high volume of applicants

2000 Career Central launched, an online system for employees to manage salary and expense claims, training programmes, career options, performance evaluations and so on

2000 Instep internship programme conducted with business schools around the world to bring top graduates to Infosys for a three- to four-month period

2002 HALE (lifestyle enrichment programme) launched

2003 Mysore training facility built to provide dedicated training for new employees

2003 Diversity Office established

2004 HEAR (employee grievance programme) launched

2004 Campus Connect project introduced in collaboration with Indian universities to steer their curricula towards Infosys's needs and to create awareness of the company on campus

2006 Career Clarity initiative developed to help employees match their expectations to available opportunities performance engagement workshops to create a platform of organizational change agents who will light the next round of fires. “We are consciously creating energy around new ideas,” explains Reddy. There is also a conscious effort to listen to the opinions of people lower down in the corporate hierarchy. Murthy introduced the “Voice of Youth” to the management council by bringing five or six high-potential managers under the age of 30 into the council on a rotating basis. These managers present their thoughts and insights at the company’s annual planning conference.

Infosys is also happy to share its leading practices and to make its ideas available for others to copy. Ravichandar recalls that in the late 1990s and early 2000s, Infosys hosted the Confederation of Indian Industry’s annual CEO Conclave. “Mr Murthy made it a point to tell us to share our best practices and innovations with these CEOs for two reasons: for the benefit of industry at large and also so that we would work even harder to have something newer and more innovative on offer the next year.”

Import and adapt Infosys managers actively seek out best practice ideas from other companies and then adapt them to their own context. “Because of the nature of our work,” Bikramjit Maitra, Senior Vice President of Human Resources, explained, “We often understand our clients’ processes better than our own.” And this knowledge then gets used – with the client’s permission – to make Infosys better. Executives are also very careful only to introduce ideas that have a good chance of success. “The system has to be ready for a good idea. A best practice implemented 75 per cent is only as good as a 75 percentile practice fully implemented,” commented Reddy.

Aggressive automation Infosys moved its hiring process online in 2001 – an essential move in retrospect, but one that was ahead of the curve then. The company transferred all its internal HR systems onto its Intranet during the period 2000–2002. And now the first elements of Web 2.0 thinking are appearing on the Intranet (for example, the questions to the CEO subjected to an interactive rating system). Perhaps it is not surprising that such a leader in the IT industry has aggressively embraced online systems, but it is nonetheless an important feature of its progressive model.

An experimental approach It is always tempting to roll out a new idea across the whole company once it has been given the go-ahead, but it is also risky. Infosys prefers an experimental approach. It gives more freedom to some parts of the organization than others, so that they can do more innovative things. The Career Clarity initiative, for example, is being tried out in three units and with about 3000 employees at the moment. The results will be monitored over the next two years, and only then will a decision be made about rolling it out companywide.

In any company, many factors contribute to its success, including visionary leadership, strong core values and a healthy dose of luck. One may attribute Infosys’s to a number of factors also, but its commitment to pioneering human resource practices should be at the top of the list. ■

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Keystone tops

The legal profession seemed to have its organizational models set in adamantine stone. Then came Keystone Law. Organized virtually, entrepreneurial and fast growing, Keystone is changing received wisdom on how the legal profession is run. **Stuart Crainer** talks to its founder, James Knight.

This is how a legal firm is organized. There is a large building with an impressive facade. It is in the city centre and has the full panoply of individual offices for the most senior lawyers. There are well-appointed meeting rooms with polished tables. There are trainee solicitors and an array of support staff ensuring that the lawyers are fed, watered and provided with working photocopiers. There are meetings of lawyers and meetings of support staff. The solicitors have billing targets to ensure that the mighty jurisprudent juggernaut keeps running, remains on the road – and stays solvent.

From Dickens's *Bleak House* to Sir John Mortimer's *Rumpole of the Bailey,* this is how people think of law firms, because this is the way law firms have always operated.

Until James Knight and Charles Stringer objected.

After qualifying as a solicitor in 1992, Knight worked in such an environment with Trowers & Hamilins in the city of London and then as a commercial solicitor in Hong Kong. When he returned to London, he worked primarily as a consultant for the BBC and a major entertainment company. "I realized that I never really liked being in a big company structure. To some extent, I was a reluctant lawyer; I just wanted to be doing business," he recalls. More clients joined. What attracted them, he realized, was simple: a cost-effective and personal service.

Of course, the personal element of legal service is a cornerstone of how the profession is traditionally organized. Lawyers have a personal, confidential relationship with their clients. The trouble has always been how to scale this up. The solution has been to add costly overheads – office space, trainees and support staff – and pressure lawyers to bill for as much of their time as possible.

With new technology available and a growing number of more entrepreneurial lawyers keen to work for themselves and enjoy an independent lifestyle, Knight saw an opportunity for a new organizational model for the legal profession. In 2002, Lawyers Direct was created – recently rebranded as Keystone Law. Knight set up the company with Charles Stringer, formerly head of sales at BBC Technology.

Virtual truths

The crucial difference between Keystone and a standard law firm is one of attitude: it is a law firm *and* an entrepreneurial business. It styles itself as "the entrepreneur's law firm".

Keystone is basically a virtual organization for the legal profession. Its lawyers are independent, called in to do the work when it arrives. "At Keystone we have removed most of the overhead normally associated with the law firm," says Knight. "What remains is a team of motivated lawyers who have excelled at prestigious law firms and companies before joining us to work in a more personal, ongoing and client-focused way."

Keystone's 70 solicitors operate from their own satellite offices – usually at their homes – and from their clients' offices. Originally the lawyers were linked simply by email correspondence. This was soon improved, thanks to the power of web browsers using broadband. Now, Keystone's systems are hosted on a third-party server, and the lawyers' computers are gateways to the firm's system. The aim is seamlessness.

Under this new system, there really are no quotas set by the firm. Solicitors are self-employed, so there is no exclusivity or minimum billing targets. They take advantage of all the flexibility and freedom that this arrangement allows but, at the same time, access the same level of support enjoyed by a →

> "I realized that I never really liked being in a big company structure. To some extent, I was a reluctant lawyer; I just wanted to be doing business."


James Knight: Virtually a lawyer

→ solicitor employed by a conventional law firm. The support includes professional indemnity insurance – particularly important to solicitors and the most essential regulatory law firm requirement.

Often the lawyers work in teams. They are supported by a small London office that handles administration, meeting facilities and essential administrative duties. "The central office ensures Keystone operates as a cohesive, seamless and efficient law firm," says Knight. "We believe that sometimes less is more. Less overhead means less emphasis on fees; and that, in turn, means a more dedicated, personalized and attentive service. What is so enjoyable about the business is that it is so transparent and honest."

Keystone's clients are predominantly small- and medium-sized businesses, entrepreneurs and government agencies. Keystone even acts as a talent pool for standard legal firms in need of extra expertise. "What links them is a demand for practical, accurate and commercially oriented advice," he says. Uniquely, the firm's fee structure is displayed on its website (www.keystonelaw.co.uk). "I really couldn't think of any reason why not," Knight confides.

For the lawyers, the fee structure is attractively simple. When they bring in work and deliver it, they receive 80 per cent of their fees. If Keystone provides the work, the lawyers receive 70 per cent of the fees. If lawyers bring in work that is then delivered by one of their colleagues, they receive 10 per cent of the fees.

For the lawyers, Keystone often offers a change in lifestyle. They can work when and where it suits them. One lawyer is based in the south of France. "It really is a symbiotic relationship," observes Knight. "What they like is there are no targets and no pressures to bill. It is a business about lifestyle, so we have some who earn a few thousand pounds a year and others who earn hundreds of thousands."

Virtual issues

Virtual organizations have been developed in many other areas – witness the consulting firm Eden McCallum (*Business Strategy Review,* Spring 2007, page 72). Such enterprises face some common challenges, ones that Keystone is now encountering:

The quality challenge A key recurring issue in making any virtual organization work successfully in the long term is quality control. Keystone insists that its recruits have at least six years' experience, and it recruits from the top traditional firms. In practice, the lawyers have an average of 12 years of experience. Keystone only recruits lawyers who can bring along active clients as this is considered the ultimate endorsement of the lawyer's standing in the profession.

One recent shift in emphasis has been to develop a cadre of lawyers who do significant amounts of work for the firm rather than lawyers who work only occasionally. "We've found that as we have become more sophisticated and advanced technologically

> Providing leadership to a virtual organization first appears contradictory; yet, without leadership, the virtual team can become technologically impressive but rudderless.

and organizationally, it actually makes more sense to deal with a smaller number of lawyers rather than focusing on growing numbers," says Knight.

The leadership challenge Another challenge is providing the kind of leadership that works in a virtual firm. Providing leadership to a virtual organization first appears contradictory; yet, without leadership, the virtual team can become technologically impressive but rudderless. "My role is similar to that of a senior partner. I am the gelling force," says Knight. "There is an interesting dynamic in that I control the company, its progress, and the way it markets and presents itself. I often canvass opinion from the solicitors." Freedom exists alongside discipline. Keystone's bible is its 60-page operating manual. This covers everything from what font lawyers should use on their letters to passwords to the way the remuneration structure works.

The growth challenge With the onus of being entrepreneurial – and pulling in entrepreneurial businesses – Keystone is growing. It is now the fastest-growing law firm in the UK with 100 per cent year-on-year growth. Managing growth is not normally an issue for a legal firm. "It is important to concentrate on the here and now," warns Knight. "But this model facilitates rapid growth. Normally, firms are constrained physically and in terms of cost – more lawyers mean more salaries. We don't have that."

The only constraint is that external investment is not possible for a law firm unless it takes on debt in highly complex arrangements. This means that growth has to be organic. Changes in the law in 2012 will enable law firms to float a percentage of their stock. This may be an important development for a limited company such as Keystone.

To date, no competition has emerged to challenge Keystone's model in the UK. "No one else has risked it because they still hold onto the traditional idea of employment. Barriers to entry are low, but you have to do it in the right way," says Knight. "In the end, success is making the business the best it could be, letting it achieve its potential." ■

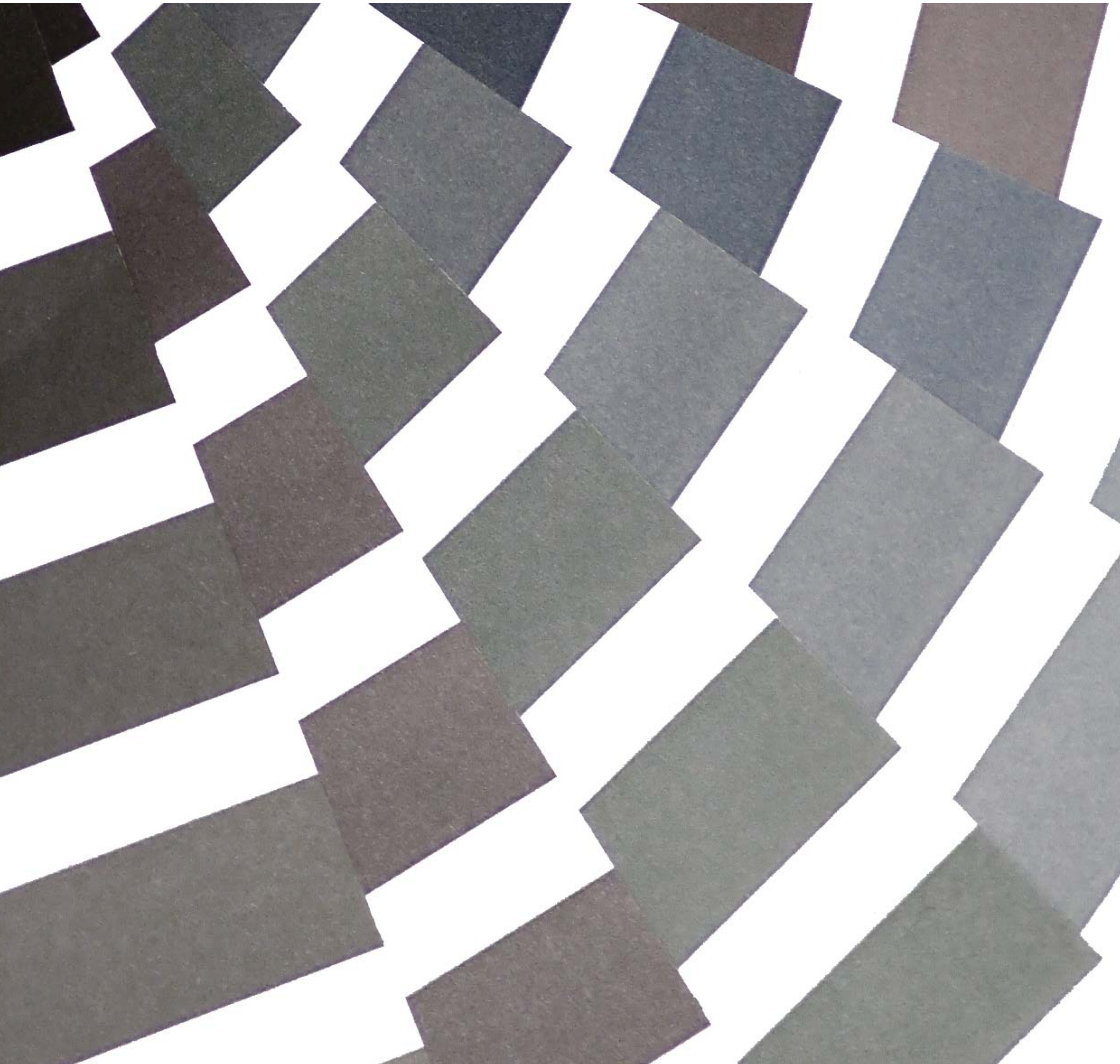
The personal element of legal service is a cornerstone of how the profession is traditionally organized. Lawyers have a personal, confidential relationship with their clients. The trouble has always been how to scale this up.

Stuart Crainer (scrainer@london.edu) is editor of *Business Strategy Review.*

Best practice

CONTROVERSY:
The essence of strategy

The essence of strategy is to make controversial choices in order to gain a competitive advantage, but difficult choices often engender opposing views. **Aneel Karnani** presents a process for strategy development that can help managers surface, manage and resolve conflict, thus resulting in more effective strategic choices.



The much-publicized 2001 merger between Hewlett-Packard and Compaq was very controversial. The CEOs of the two companies campaigned vigorously for the merger while the most visible critic of the merger, Walter Hewlett, 14-year HP director and son of co-founder William Hewlett, heavily contested it.

To give you a feel for the strategic battle, consider first this comment from Carly Fiorina, then the CEO of HP, in a letter to shareholders: "The merger of HP and Compaq is the best way to strengthen our businesses and improve our market position, deliver more of what our customers need, enhance opportunities for our employees and increase the value of our shareowners' investments." By strong contrast, the most visible critic of the merger, Hewlett contested it with public comments like: "We profoundly disagree with management's assertion that HP needs to make this large and very risky acquisition. It worsens the HP shareholders' portfolio of businesses. It does not solve any strategic problems." Experts, including investment bankers, stock analysts and management consultants, argued on both sides of the merger debate.

While things do not usually get this heated, strategy is always controversial; in fact, the very essence of strategy is controversial choices and trade-offs. In order for one firm to outperform its competitors and gain a competitive advantage, it must act differently: make choices and choose alternatives that are distinct from its competitors. Strategic decisions also imply making trade-offs; otherwise every company would choose the same alternatives and there would be no difference among companies. Moreover, equally smart managers could have very disparate views on the best strategy for a company, as seen in the case of the HP-Compaq merger.

Four years after the contentious merger, and four years of disappointing results later, the board of directors fired CEO Fiorina. HP Chairwoman Patricia Dunn remarked that the company needed a leader who would better execute its existing strategy. Sanford Robertson, founder of the investment bank, Robertson Stephens, differed in his view, "I always thought they executed pretty well [but I] was curious about the strategy." Even in hindsight, strategy can become controversial.

Most managers figure out that strategy formulation involves making difficult choices, but often they do not also realize that similarly sharp choices are required in strategy implementation. HP provides yet another example that highlights this point. Prior to her departure from HP, Fiorina restructured the organization by combining the personal computer business and the printer business into one division. Only a few months later, in June 2005, Mark Hurd, the new CEO, reversed that decision.

Strategy is not only controversial; it is a critical driver of superior firm performance. Michael Porter, an influential strategy guru, argues that the root cause of poor firm performance is the failure to distinguish between operational effectiveness and strategy. While operational effectiveness is necessary, it is not sufficient for superior performance. Managers often wonder where the dividing line is between strategy and operations, between strategy and tactics. A way to define this slippery distinction is that strategy consists of choices that are both controversial and significant drivers of firm performance. In order for firms to benefit from their strategic planning processes, they need to be able to manage the process of dealing with the controversy (and the inherent conflict that arises) during strategy development and execution.

Conflicting strategies

In February 2005, the *Wall Street Journal* sampled a range of industry veterans and management experts to ascertain their opinions on what HP should do next. Their responses highlight the problem: "turnaround experts offer a wide range of conflicting strategies." This is not an unusual, let alone a unique example. In 2005, Boeing announced its latest investment in its newest offering, the 787 Dreamliner, a mid-size, long-range plane that seats between 200 and 300 passengers. Airbus, on the other hand, bet on its A380, a super-jumbo, long-range plane that seats between 550 and 800 passengers. These two competitors placed bets based on differing views of the future growth patterns in international air travel: point-to-point versus hub-and spoke. Their wagers are not only controversial, but also substantial: Airbus spent $16 billion developing its new A380 aircraft.

Blockbuster, the video-rental chain, has seen its business erode in past years as a result of new competition from a variety of sources: low-priced DVDs, online DVD rentals, video-on-demand and downloaded movies from the Internet. The company has invested money to expand its business in several different ways: selling and renting video games, offering used movies for sale, starting an online mail-order business, establishing a subscription service and cancelling late fees. Carl Icahn, the largest shareholder of the company, disagrees with many of Blockbuster's strategies and feels that the company should significantly increase its dividend payout so that investors can better invest their money elsewhere. This situation is a familiar one: a once-dominant business that generates plenty of cash sees its market slowly decline. So, should management use the cash to diversify the business into something new but risky? Or, should they manage the business for cash and return it to shareholders?

→

Thinking

→ The examples above focus on large, well-known companies facing dramatic and challenging choices. Yet, all companies, regardless of size and industry, confront equally controversial choices in formulating their strategies. Why do some firms perform better than other firms? What can you do to be more successful, to gain a competitive advantage, and to create shareholder value? Strategy is a useful framework for answering these questions; the strategy framework can help you set your action agenda as a senior manager.

Strategy consists of a set of interrelated choices that have a major impact on a firm's performance. It involves both formulation and execution. The two are intricately intertwined; and it is difficult, if not impossible, to separate the two steps. It is futile to argue whether formulation is more important than execution or vice versa; they are both essential to achieving superior performance.

Vision versus strategy

In the lobby of many companies you will find a beautifully framed vision statement. However, if you take that vision statement and hang it in the lobby of a different company, most people would never notice the difference. These statements are often trite, generic and exchangeable, not controversial and, hence, not strategic.

Most vision statements are platitudes about being the best in terms of quality, service, growth, leadership, innovation, customers, employees and/or shareholders. Both Nike, the athletic wear company, and Comerica, a banking organization, have vision statements that refer to "enriching people's lives". Scott Adams, the creator of the famous comic strip featuring Dilbert, tells of a company that has this vision: "Create effective partnerships with our customers that enable them to achieve excellence". That is not a bad vision, even though it could apply to any company from IBM to organized crime.

Vision statements are useful for energizing people in a company and providing a common purpose and cohesive values. Instilling a vision in a company that significantly influences the corporate culture can be a source of superior performance – a vital aspect of strategy implementation; but vision statements provide little, if any, guidance for making complicated strategic choices. There is much more to formulating a strategy than devising a vision.

Strategy consists of a set of integrated choices: the domain in which the firm will compete, the sources of its competitive advantage, the value proposition it offers its customers, and the organizational design required to execute its strategy. All of these choices are complicated and controversial; equally smart managers may have different opinions on these choices. Analyses alone do not yield the answers; managers have to make difficult judgements, often in the context of considerable uncertainty.

One source of uncertainty is that strategy deals with the long-term outlook, and there can be equally plausible forecasts of the future. Uncertainty also lies in the actions and reactions of competitors, but one source of uncertainty is self-created. If you wait to make a decision only after you have attempted to collect all available information and done all necessary analyses (which is impossible to do in the first place), it will be too late. For example, the Marine Corps trains its soldiers to practice the "70 per cent solution": if they have 70 per cent of the information, done 70 per cent of the analysis, and feel 70 per cent confident, then they should move. To avoid paralysis by analysis, it is better to make a decision with less information and to act despite the greater level of uncertainty.

Strategy deals with complex issues, and it is difficult to understand the trade-offs because we do not comprehend well the causal ambiguities, the cause and effect relationships that underlie strategic decision making. For example, in trying to understand the drivers of demand, it may be hard to measure the relative importance of price and quality as well as to define quality. In trying to ascertain the drivers of cost, it may be tricky to judge the effectiveness of automation in reducing cost. In designing compensation systems, it may be thorny to determine the appropriate mix of individual and group incentives.

Often the controversy in strategy resides not in a general statement of the firm's direction, but rather in its deliberate application: it is a matter of degree. Choosing between black and white is not controversial, but choosing among the various shades of gray is – strategy lies in choosing the right shade. The exhortation that a company should be customer-oriented and listen to its customers is not controversial – of course, it should. The strategic choice is to what extent it should listen to customers. How much money should be spent on marketing research? How much of the CEO's time should be committed to customer contact? Allocating scarce firm resources, both money and time, undeniably involves a choice and a trade-off. Listening to customers can include other trade-offs as well. If you cater too much to your current customers and align your organization solely to do so, you might be blind-sided by a disruptive technology. Paying excessive attention to customers also may reduce your ability to pursue technology-driven innovations.

As another example, a large consumer products firm was considering its strategy for entering China. The issue was not whether to go to China or not; it was obvious to all the managers (and the competitors) that entering the Chinese market was critical to its growth. The controversy was the extent to which the firm should invest in China over the next three years: $15 million for a minor distribution presence or $100 million for a major presence that would include significant manufacturing and technology development.

Uncertain context, certain decisions

The fact that a decision is made under uncertainty does not mean that one cannot feel confident that he or she is making the right decision. For example, imagine a jar filled with balls, 75 per cent white and 25 per cent black. You are asked to blindly pick out one ball, and guess, in advance, its colour. The decision to guess the colour white is absolutely correct, which you can feel certain about. However, after you draw the ball, there is still only a 75 per cent chance that you guessed correctly. *Ex ante,* the decision is certainly right; though *ex post,* the outcome might turn out to be wrong.

For many foreign companies in China today, the outcome of long-term profitability is highly uncertain, but they can still be certain that their decision to enter China today is the right one.

How, then, should one approach the planning process? In a typical company, strategic planning is driven by the calendar. Managers initiate the process to analyse and formulate the company's strategy not because the firm faces a strategic choice, but because it is, say, June. A better approach would be to have the strategic analysis triggered by the arrival of a strategic choice rather than by dates on the calendar.

In the traditional strategic planning process, much effort is expended on analysing the environment (political, economic, social and technological), the industry, the competitors, the customers and the company. Several different frameworks may be used for these analyses: Porter's "five forces", strengths-weaknesses-opportunities-threats (SWOT), McKinsey's 7-S model, generic strategies, core competencies, a Balanced Scorecard and/or EVA (economic value added.) Yet, the problem is that these analyses are not tied to a specific strategic choice the company faces, hence the time and effort spent is scattershot and wasteful. Many of the analyses produced have no impact on the actual choices the company makes. No wonder that many firms are disillusioned with their strategic planning.

My favourite question to ask as a facilitator in a company's planning process is "So what are you going to do (or not do) as a result of your analyses?" Unfortunately, many managers do not have a good answer to this question. A better planning approach is to first identify the major strategic choices the company faces and then to focus the analyses on these choices. This way the planning process is much more directed and action-oriented.

For example, a major US building products company began its planning process by identifying five key strategic choices: (1) whether to enter China, (2) what to do with current operations in Europe, (3) how to deal with consolidation of the distribution channel, (4) how to manage the shift from products to services and (5) how to deal with large commercial customers. The rest of the planning process was then sharply focused around addressing these five issues. In the next planning cycle, the company may revisit some of these issues or identify new strategic choices.

> Strategy is always controversial; in fact, the very essence of strategy is controversial choices and trade-offs.

Confront differences – *generate* conflict

In order to make a strategic choice in an intelligent and effective manner, the firm must understand the pros and cons of each alternative and analyse the trade-offs involved – while in the context of much uncertainty and causal ambiguity. Managers may come to different conclusions based on their diverse perspectives, backgrounds, competencies and access to information.

The best way to deal with this issue is to make the strategic planning process as participative, explicit and transparent as possible. The firm needs all the managers to put their information, assumptions and analyses on the table. Then the managers can share, critique, and understand each other's positions and come to an honest resolution of their differences. This is an idealistic view of the process, and it will never be perfect due to hidden assumptions and biases, vested interests, and organizational politics. But, the more you try to foster and encourage an honest and inclusive strategic decision-making process, the more likely it is that the firm will make intelligent choices and develop strategies that create a competitive advantage.

Confronting differences is the key. We need to bring conflict out into the open. This is how wise trade-offs among competing alternatives can be made. Intellectual debate among managers with divergent views is a vital source of creative and innovative solutions within the company. Conflict →

Criteria / Alternatives	Speed to market	Cost	Customer orientation	Standard platform	Radical change	Wide adoption
Technology centre	Good	OK	Poor	Best	Best	OK
New division	Best	Good	Good	Good	Good	Poor
Champion division	Best	Good	Best	Good	Good	Poor
All divisions	Poor	Poor	Good	Poor	Poor	Best
Free choice	OK	OK	Good	Poor	Poor	Good

Figure 1: Understanding trade-offs

is the source of creativity; dissent is the source of learning. We learn by talking with someone with whom we disagree. Managers must confront conflict rather than avoid it. Conflict, of course, needs to be managed so that it is constructive and intellectual.

Managers also need to be able to resolve their conflicts to arrive at a strategic choice. A firm is not a debating society; the process cannot end with the managers agreeing to disagree. Once the firm has made a strategic choice, the managers who initially disagreed with the choice must work toward supporting the decision.

Strategic choices are intrinsically controversial, so, if at the start of the strategic planning process all the managers seem to agree, this can be a symptom of organizational malaise. Lack of conflict is not the same as real agreement; consensus can be a disguise for disengagement.

Do not settle for a premature consensus. The firm should explore different strategic alternatives and analyse the trade-offs involved thoroughly. A quick decision on a particular option might mean that a better alternative is ignored. Even when a course of action is chosen, the managers may not fully understand the negative aspects of the chosen alternative and risk running into problems implementing the strategy. A complete understanding of the various alternatives and their pros and cons, usually achieved through extensive debate, is essential to making a good choice and executing it well.

It is not enough to merely tolerate dissent; firms must actively encourage dissent. Senior managers need to actively seek out opposing points of view and draw out people who are hesitant to volunteer negative or contrary opinions. As a senior manager, it is beneficial not to express your position too early in the discussion since it may intimidate subordinates from voicing a differing opinion. An outside facilitator can help the company to bring forth different points of view during the strategic planning process. To avoid "group think", diversity among the management team (in terms of education, functional expertise, work experience and business perspective) is also important.

Another alternative is to intentionally generate conflict, even if artificially. Assigning roles and positions to different managers, some in the role of devil's advocate, ensures that all aspects of the strategic choices are thoroughly examined. Recall the major US building products company, previously mentioned, that was faced with five strategic choices. On each of these five dimensions, top management identified two or three different strategic responses and arbitrarily assigned a senior manager to make a case for each alternative at the company's upcoming retreat.

At the retreat, the top 25 managers in the company spent a half-day session on each strategic choice. Each session started with two or three managers advocating their assigned alternative for 45 minutes. After these presentations, the entire group debated the alternatives and either made a strategic decision or agreed on specific steps for further analysis. Unlike planning retreats at other companies, the discussion at this company was focused on the strategic considerations at hand, was well informed by data and analyses, and was not based on unsupported opinions or hunches.

Another approach to generating conflict is to assign managers to play the roles of competitors in the industry. Competitor role playing is a good way to critically examine the firm's existing strategy. Seeing the situation from a different perspective also may produce alternatives that had not been considered. Since managers can be biased in their view of the company's capabilities and underestimate competitors' strengths, role playing can be a way to correct for this bias and engender ways to abate potential competitor threats and even identify new opportunities.

Avoiding dysfunctional conflict

Although the goal is to use debate to shed light on all sides of a strategic choice, conflict needs to be managed so that it does not degenerate into dysfunctional interpersonal conflict. Proper conflict management is vital so that the company benefits from the process in a manner that does not damage people's ability to work together as a team afterwards. The strategic planning process is an intellectual debate; hence it should focus on ideas and decisions and not on personalities. Managers must realize that they have common goals and are teammates who do not compete with each other, but rather with external competitors. The conflict is but a means to greater collaboration.

Unfortunately, debates can generate some heat in the conference room. This tension must be diffused quickly and harmlessly. Humour – even if it is contrived – can be effective at relieving tension and promoting a positive mood, thereby creating a collaborative *esprit*. A well-planned group social gathering over drinks or a meal can also go a long way towards smoothing ruffled feathers and creating a friendly tone. Yet, managing the tone is not enough; one has to be earnest about the role that accord plays in the conflict management process for it to be constructive.

Another way to steer the discussion away from the individual is to root the debate in facts and data. In the absence of good data, managers waste time in pointless debates over opinions. Good data, defined as timely, relevant and objective, encourages managers to focus on the real issues and strategic choices; however, many companies lack the quality of data required for a thorough examination of the strategic choice. The traditional planning process, which typically begins with analyses, requires extensive data collection, but much of this data and the analyses conducted go unused. Starting with the strategic choices focuses managers on the data collection effort as well as ensures appropriate depth of analysis. More importantly, it equips managers to begin formulating judgements and making decisions on strategic issues much faster.

By creating access to timely and relevant data that is shared among all the managers, managers are equipped with the means to begin discussions on differences in views based on facts and not opinions. Next, it is important to create a forum that encourages managers to share their underlying assumptions by making them explicit. Managers with differing assumptions that have not been articulated end up arguing, which leads to misunderstandings that deteriorate the context of the debate. Once these assumptions are uncovered, managers may still disagree about them but can, at least, focus on the root cause of their disagreement, thereby improving the quality of the debate. Finally, companies should train their managers to be well versed in strategic analysis techniques, since then managers can participate more constructively in the strategic debate. These analytical tools (such as industry and competitive analysis, value-based planning, core competencies and others) sharpen their view and further teach managers to support and anchor their opinions using objective and substantive measures.

Strategic choices always are complex and always involve making judgement calls. One way to simplify the process is to break down a complex problem into sub-problems and then to identify the criteria for making each trade-off. One interesting instance of this approach involved a company faced with competition stemming from an emerging technology; the company decided to invest in developing the capability of the new technology itself. The strategic issue was how to organizationally manage the development of the budding capability. The five identified strategic alternatives were:

- Ask the technology centre at the corporate level (a cost centre) to develop the new capability
- Form a new division (a profit centre)
- Choose one of the current divisions to develop the new capability
- Require each of the current divisions to simultaneously develop the new capability
- Offer to each division the choice of developing the new capability

For this company, the strategy formulation choice to invest in the emerging technology was straightforward. The strategy implementation choice of organizational design was much more controversial. There was no easy answer to this problem; there were pros and cons for each of the strategic alternatives. The managers identified six criteria for making the trade-offs among the strategic alternatives, as shown in the related chart.

It was simpler for managers to discuss the alternatives, one criterion at a time, after seeing the choices and trade-offs in a matrix format. Weights were not assigned to each criterion or numerical preferences to each alternative since this guide was not meant to be a mechanical tool for making decisions. Rather, the managers used the matrix as a framework for initiating dialogue among the group and bringing out the salient points of each alternative. At the end, the managers still had to use their judgement and experience to choose among the alternatives. Yet, the matrix allowed them to be more focused on the components of their choices, to share their thoughts and ultimately, to be more comfortable with the final decision, which aided in the strategy process.

In order to depersonalize conflict, it is essential not to link the conflict to rewards. If the manager or team that wins the debate stands to gain in terms of compensation, promotion or the like, then →

Strategic choices always are complex and always involve making judgement calls.

Thinking

→ everyone will fight too hard not to lose. If the conflict remains an intellectual debate, it is easier for people to concede gracefully. In fact, it is useful (perhaps even critical) to have the person or team who opposed the winning strategy to be involved in implementing it.

Another issue to be wary of in resolving conflicts is the desire to reach a unanimous decision. Requiring unanimity implies giving each person veto power, which might force a compromise decision with which no one is happy. Furthermore, consensus is not necessarily a sign of harmony; it might well be the result of fatigue and frustration.

Strategy development should be participative, but not democratic. The purpose of generating and managing conflict is to thoroughly analyze strategic choices. It is important that senior managers retain the power to make the final decision after hearing and carefully considering all the facts, data and perspectives surrounding the strategic choices.

Senior managers should, however, be prepared to explain the logic behind their final decisions, since managers who disagree will be more willing to accept it if they perceive the whole process as fair. It is also important that senior managers make a definitive choice and clearly articulate the strategy. In fact, people in a company expect their leaders to be resolute; they want their leaders to say clearly, "This is where we are headed".

Cultivate the right culture

Effective strategic planning and implementation require that companies cultivate a culture that deals well with conflict. Companies from countries with collectivist cultures may be less apt at handling conflict within their organizations and hence be at a disadvantage.

Collectivist societies – for example, those found in Mexico, India, Japan, Brazil and China – are characterized by harmony and "knowing one's place". These traits are not only valued, but expected. Conflict is viewed negatively, typically avoided and, at times, suppressed. Group cohesiveness is deemed to be very important. People have a strong sense of interdependence as their identity is embedded in their relationships. They are highly sensitive to losing social face in public and avoid conflict, which is seen as disrespectful and may lead to alienation. Consequently, dissent is avoided or suppressed, let alone encouraged and generated.

Other countries, of course, have a much more individualistic culture. The US, Canada, Switzerland, Spain, Australia, Russia and the UK could be cited as examples of such societies. The direct, individualistic, confrontational style required of managers in the strategic planning process I have proposed in this article will assuredly present a challenge for managers from more collectivistic cultures. Conflict-avoiding behaviour stalls the strategic planning process, since participants cannot be relied upon to share their true views on issues, limiting the scope and innovativeness of the strategic debate. There may be an even worse consequence: conflict may later manifest in destructive, win-lose ways that undermine both performance and relationships.

Additionally, a country's culture influences the structure of organizations in that country. The more hierarchical and rigid the organizational structure, the more conflict resolution is based on formal power. The strategic planning process is thus more autocratic, rather than participative. Firms in such situations need to devote extra effort to setting up mechanisms for strategic learning by embracing controversy and conflict.

In an increasingly global world, managers face fierce competition from both domestic and foreign players. This new competitive environment is dictated by markets and is blind to country borders and culture. Firms that cultivate an environment in which managers develop an appreciation for the power of conflict stand to achieve a true competitive advantage. ■

Resources

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Self-help for CEOs

Is it really lonely at the top? **Alexander Gutzmer** reports on a survey of CEOs that shows why leaders become insulated – and how they combat destructive isolation.

Thinking

Things became disconcertingly quiet around Rudolf Schulten when he took over the helm at the Mannheim-based power company MVV Energie. "As the CEO," he says, "I suddenly discovered I was leading quite a solitary existence within my own organization, because no one was on the same hierarchical level as myself." Schulten attempted to counteract the situation by placing key allies as direct reports. Now, two years later, the situation has improved.

Despite Schulten's scenario, the solitary existence of CEOs, however, is not simply a function of a concrete and destructive corporate culture surrounding some of them. Many CEOs and executive directors of large companies have similar stories to tell. There seems to be a system behind it. The air at the top, it seems, is not only thin but cold as well. Employees, when interacting with their bosses, keep their distance. And although this might be a response to the common perception that senior executives have a kind of "tunnel vision", this dysfunctional insularity (or a lack of connection) not only emanates from CEOs but also from the employees themselves. The amount of power a CEO has creates a certain distrust among those some steps further down the corporate ladder.

Consequently, CEOs tend to spend more time talking to their peers in other companies. The people in charge, one could say, set up their own little decision maker's self-help groups.

Pertinent issues

Bastian Fassin, head of the candy company Katjes, says, "CEOs need to discuss issues pertinent to them in the same way that physicians at a conference might discuss issues particular to their work. So, informal organizations and small discussion groups offer good forums for the discussion of key issues. Furthermore, entrepreneurs and a trusting environment are essential as the means to make these kinds of exchanges effective."

A personal network is vital not only (as is common knowledge) for young professionals, but also for those at the top. It is becoming a critical success factor for today's crop of CEOs. Says Torsten Oltmanns, Global Marketing Director for Roland Berger Strategy Consultants, "A personal network gives them an opportunity to discuss ideas, economic and political issues, as well as new management models." It is a well-considered assessment, since Oltmanns, together with his team at the Technical University of Munich (TUM), has carried out two studies that focus on the biggest players in the German economy.

It is unique research: the consultants managed to deeply explore an intrinsically shy species. Though CEOs are often the centre of heated debate, often fuelled by envy and mistrust, they seldom discuss what they do or argue their own value to their companies. Add their public "shyness" to their million-dollar salaries and seemingly misanthropic decisions relating to where businesses operate and whom they employ, and it's easy to understand the backlash against the CEOs of large companies. As a type of leader, they are becoming more and more unpopular. Also, wrongdoings by individual managers (as we have seen during the sub-prime crisis) are influencing badly the image of business executives as a whole.

In turn, many CEOs are increasingly reluctant to have their motivations and sentiments revealed. Few of us know who they are, what makes them tick, how they obtain information or how they make decisions. These are the types of questions to which Oltmanns and his assisting consultants sought to find answers. Their interviews gave them insights into the inner workings of today's corporate CEO.

Whom do you trust?

One finding is that CEOs are barely trustful of many of the main social opinion leaders. In fact, CEOs trust, for instance, research institutes and academics less than their own employees and colleagues in other companies. The higher one goes in the company chain of command, the more readily discernible the disparity becomes. Using the orchestra as an analogy, the Roland Berger consultants identified three types of leaders: conductors, soloists and orchestral musicians. They all function as decision makers, but only the "conductors" set the tone. CEOs and core members of executive boards differ in terms of where they seek out their information, which reflects the mixed experiences many CEOs have had in dealing with those who provide input from an external perspective.

Bad news for the other big group of key decision makers, politicians: executives at higher levels place almost no trust in politicians at all. In fact, 10 per cent find them completely untrustworthy and 70 per cent consider them only marginally so. Apparently, ignorance of necessary economic policies and a tendency toward short-lived populism, as can be evidenced in many European countries, cause trust to erode.

Accordingly, the alphas of the business world are very reluctant to approach the elected policy makers. Says Alexander Rittweger, head of the Munich-based Loyalty Partners (known for its "Payback" bonus programme), "I believe that managing directors would do well to keep their distance from the political realm." Otherwise, they will tend to find themselves back on the slippery slope "that could be more damaging than beneficial to themselves and their companies". Moreover, it does little to improve the perceived incompetence of government officials in regard to economic policies.

Regardless, Rittweger does not believe CEOs need to completely withdraw. “Politics relies on two-way communications with decision makers in the business world,” he explains. “So, in that respect I think it makes absolute sense to have informal discussions without any distractions.”

Just the facts

Just as their relationship with politics is marked by suspicion, a basic distrust can be noted among CEOs in the context of gathering facts. Apparently, all kinds of people try to manipulate them with one-sided information. One should also consider the fact that a CEO’s power is based on the quality of the information received. “Information is the key to power,” Oltmanns says. That is how the quest for information – particularly the kind to which others are not privy – becomes “one of the most fundamental and critical tasks of any decision maker.” According to the Roland Berger study, all decision makers spend 18 hours per week gathering reliable information, while the elite “conductor-type” CEOs spend 14 hours per week on that task.

CEOs, in evaluating their information sources, place considerable emphasis on reliability. To them, finding absolutely trustworthy sources is even more important than in-depth analysis and the breadth of content. If the CEO has a creed, it is this: “I don’t need all the details, just tell me the truth.”

But what about internal data? Can’t leaders manage appropriately if they have good numbers – and, are the numbers prepared by their own employees reliable? The answer is *perhaps,* but “not necessarily”. Efforts to manipulate can come from within, too. All of this portends a problem for strategy development: the CEO who completely fails to direct his or her senses outward becomes blind to the company’s wider issues, to new markets and social threats or opportunities. Nevertheless, the Roland Berger researchers were able to show that the inflow of information from outside decreases at the highest echelons of corporate privilege. And sticking only to number crunching is neither a good thing nor a safeguard.

Interestingly, many CEOs have conceded all this as a potential problem. “CEOs who only use internal sources run the risk of walking with blinders on and suppressing constructive criticism,” says Rittweger. Agrees Fassin, the Katjes CEO: “It’s true, the risk is there.” His solution is to “get out of the office and meet the customers”. To CEOs in his industry, Fassin recommends, “Check on stores on a regular basis, and meet with customers. Marketing starts with customers, not with one’s colleagues.”

Confidentially speaking

However, not all is mistrust around the CEO. There is one person whom top managers rely on 100 per cent, someone who has neither a big office nor a spot on the executive staff. That person is the spouse, the individual most trusted by the CEO.

Even in times of critical decision making, the spouse’s opinion is taken into account. Spouses are particularly valued for their input by the “conductor-type” executives, according to the Roland Berger study. This finding is confirmed by Thomas Blunck, a member of the executive board at Munich Re. He doesn’t involve his wife in all business matters, but he does turn to her on subjects pertaining to “leadership, conflict management and emotional issues”. Moreover, Fassin will sometimes even call on other family members. “For me, a family is the most trustworthy and honest network,” he says. “Whether I want it or not, as the head of a family-owned business, my family will always be a sounding board.”

Ultimately, CEOs who allow themselves to become isolated and out of touch have no one to blame but themselves. According to the recent surveys of CEOs, the best leaders create their own self-help strategies by reaching out to other business leaders, to real customers in the marketplace and to families who will provide unvarnished opinions. ■

Resources

Torsten Oltmanns et al., *Elite Marketing, How to Get Through to Executives (Eliten-Marketing: Wie Sie Entscheider erreichen),* Campus Verlag, 2008.

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Born global

Some companies rapidly become players on the global stage, often much faster than larger competitors. **Alina Kudina**, **George Yip** and **Harry Barkema** studied a dozen such firms all located in Silicon Fen. Such companies, the authors believe, have lessons to teach in an increasingly international marketplace.

Most multinational companies – such as BT, Microsoft, Matsushita and Siemens – grew big in their home markets before they went overseas. More recently, a number of newer companies (mostly small- and medium-sized enterprises) have gone international within a few years of inception, even while quite small and unknown at home. Furthermore, these so-called "born globals" rapidly reach very high percentages of international revenues, sometimes 100 per cent of their total revenues. In contrast, in most countries, most companies manage only token levels of internationalization. For example, of the 300 or so largest publicly listed UK companies, fewer than 30 per cent generate half of their total revenues from international sales.

Born-global companies merit much more attention than they are receiving, as their growth strategies could provide lessons for many other organizations. We have been studying such firms to unlock their secrets to success. Specifically, we have been trying to pin down when a firm should seek early and rapid internationalization – and how to do it successfully.

A brave (and quick) new world

First, let's define the genus of business that we have been studying. Classically, born globals, or international new ventures (INVs) are defined by one source as "business organizations that, from inception, seek to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries". A more quantitative definition, from another source, describes born globals as "companies who have reached a share of foreign sales of at least 25 per cent within a time frame of two to three years after their establishment". Definitions aside, what's most intriguing is how they became global enterprises so quickly.

The traditional approach to internationalization has been described as a "stage" model, in which a company first grows solidly in its home market, and then starts exploring opportunities for expansion into adjacent countries in the region. As the company's experience and familiarity with foreign markets grows, it subsequently ventures farther overseas. A number of large multinationals have followed this path, starting with old European companies like BP, Philips and Bank Santander, and continuing with much younger technology companies like Nokia and Ericsson.

However, as noted, a growing number of companies are venturing international having just been founded; their path to internationalization is much more rapid than the traditional one. Prior research has found three key reasons for the emergence of born globals: new market conditions, advances in technology and managerial change.

Nevertheless, a question that remains largely unanswered is *why* some new ventures opt to go international from their inception, whereas some choose the traditional path of developing their domestic markets first. Prior experience of the founders, their international experience and recognition of international business opportunities, followed by the level of global integration of the industry in which a company operates – these are some of the reasons that have been put forward most often as possible explanations. Perhaps a more critical way of looking at this question is from the viewpoint of a company's top management. When *should* they seek to go international early? After all, foreign business is generally much tougher than domestic business. Why not stay at home as long as possible?

High tech and highly global

We knew that high-technology companies were particularly prone to the born-global effect, and we wanted to investigate why some of these companies were more successful in their internationalization efforts than others. In order to control for as many confounding factors as possible, we studied only companies in the same geographic area, an area of Britain known as the Greater Cambridge Area Cluster or, more colloquially, "Silicon Fen". This meant that all the companies were subject to the same geographic influences, particularly through the role of the University of Cambridge in generating technology innovation and related business start-ups.

Cambridge has been acknowledged as one of the world's leading high-technology business clusters by various publications including *Time*, *Fortune* and *Wired*. For example, *Time* assessed the top 50 high-technology companies in Europe, and nine were based in Cambridge. Also, this area is one of a handful of regions to be consistently ranked by the European Commission as "excellent for its support of innovative start-ups". Currently, Cambridge Technopole (another name for the region) is home to over 1,500 high-technology ventures employing around 45,000 people.

In the summer of 2006, we began an intensive study of one dozen high-technology companies located in the Greater Cambridge Area Cluster. The sector includes computer services, Internet, software, computer hardware, electronic office equipment, semiconductors and telecommunications equipment.

The companies we studied, in addition to being in the same sector, also shared a number of similar characteristics. They were all less than 20 years old, all had started international operations early (at an average age of 2.5 years), had a very high percentage of international revenues (69 per cent on average) with rapid growth (more than 60 per →

→ cent a year on average over the previous five years). However, the companies ranged widely in size, from £2–270 million in revenues.

The most striking thing we learned about these companies was that their imperative for venturing overseas arose from the inadequacy or even non-existence of the domestic UK market for their products or services. On the other hand, the home environment was conducive to the companies developing a competitive advantage (primarily based in technology) strong enough to compete internationally. Another important driver for internationalization was the need to serve global or multinational customers, which are prevalent in high-technology industries.

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It may seem strange that even the fourth-largest economy in the world, the United Kingdom, is too small to provide an adequate market for these companies. But we need to recognize that size depends on the industry sector. Medium-sized economies, such as the UK, actually have some sectors that are very large even by global standards and can support large companies from domestic-only demand. But, in high technology, British companies underperform relative to the economy as a whole, implying relatively smaller domestic demand.

As modern software and hardware IP companies typically use a licensing and/or royalty model, they need huge volumes of chips using their design to be sold to generate significant revenues. Hence, these companies need to operate in a market that is far bigger than that in the UK. Furthermore, these companies also recognize the importance of setting the global standard within their niche, which prompts them to expand into international markets fast.

A recent study found that public UK companies in high-technology industries had generally much lower levels of global market share than those in other industries. Only one industry, aerospace (represented primarily by BAE Systems), had a global market share above the UK average of 8.8 per cent (the latter being the revenues of all UK public companies as a percentage of the revenues of all public companies in the world). On the other hand, these industries also showed higher levels of internationalization for UK companies relative to other industries.

Follow the money

We found that home market demand is a very important determinant of international strategy for this sample of high-technology UK companies. The absence of the strong home market pushed high-technology UK companies to go international straight away. These companies would have not been able to survive, had they not gone overseas. Internationalization was not a matter of choice for them: it was a must.

On the other hand, we found home supply conditions contributing to international success in a positive way. It strengthens their competitiveness from the supply side. The presence of many of the world's top scientists and engineers in the Cambridge area, who are also less costly than their peers in Silicon Valley, coupled with government policies aimed at the development of the UK-based high-tech cluster, created a favourable environment for the development of a competitive edge by high-technology UK firms.

Apart from home conditions, we found that a number of other factors also drove these firms' early internationalization moves. In particular, we found the following factors contributing to the decision to internationalize early:

- *New market conditions* – the presence of global networks and alliances, homogenization of buyers' needs, the global nature of the contemporary business and following customers abroad
- *Technological advances* – advances in communication technology, e-business possibilities and lower fixed costs that make small projects profitable
- *Learning from overseas* – tapping into technological innovation and the networks of people

We also found an additional driver that had not been previously mentioned in the literature on INVs. Providing quality customer service to highly demanding clients located overseas also necessitated opening overseas offices for a few of the companies. This is different from a motive to follow customers. These companies have been selling internationally since the moment of their inception and gained new clients in the international markets. However, they felt they needed to have a physical presence in the country to remain competitive. In addition, opening of the overseas offices allowed the companies to tap into technological innovation and networks abroad that, when combined with improved customer service, was perceived to be an important success factor. Interestingly, opening of the office did not normally have a drastic effect on their performance (for example, sales in the country would increase only marginally as a result); nevertheless, the companies considered this step as an essential factor of their continuing success in overseas markets.

Enablers of internationalization

Having analysed what drove the companies to venture overseas, we turned our attention to the factors that facilitated the companies' international operations. Factors such as knowledge intensity of the business, ease of imitation and global mindset of managers have been previously suggested to be conducive to early internationalization. Apart from these factors, we also enquired whether there were other causes that companies felt to be important enablers of their internationalization.

Knowledge intensity A distinctive feature of the interviewed companies is that they conduct the majority of research and development (R&D) domestically in the UK, although in a very few cases, the companies were conducting a substantial amount of R&D abroad. Largely, the companies develop technology in the UK, manufacture products in Asia, and sell them in the US or Asia (typically to the subsidiaries of multinational companies). However, an ability to learn from the local environment and tap into the local knowledge base have become two of the important factors that affect differences in the performance of these companies. The best companies developed products domestically in the UK, yet stayed alert to the latest market developments by actively learning from their international exposure.

Hard-to-imitate technology Another important enabler is that these companies' technologies are typically very difficult to imitate. This protection from imitation provided the UK firms with a competitive edge in the global market. A competitor would need to spend about two years on average to develop a similar product. These substantial development costs impeded the development of competitors whether from within the markets served or from elsewhere. Furthermore, due to high scalability of the products, a handful of producers could serve all customers, again reducing scope for additional suppliers.

Competitive advantage These companies typically compete on differentiation. Cost is also important, but not paramount. As some of the interviewees told us, "We never lost a contract on the basis of cost." Competition in these sectors is mostly based on differentiation and the company's ability to be flexible and adapt its product to the needs of the market (or better foresee the market's needs). A consequence of the role of differentiation is that most of the companies need to have sizeable funds to invest in the development of technology, this providing a further barrier to new competition.

Born global – yet different?

Having analysed the similarities of the companies, we also investigated whether there were differences in internationalization strategy, particularly those that might relate to differences in performance.

We found two notable differences in strategy: (1) the degree of technology acquisition from overseas, and (2) the amount of R&D conducted. In the case of technology acquisition, one group of companies made minimal (or no) technology acquisition from overseas, while another group had notable technology acquisition from overseas. In the case of R&D, we also detected two differentiable groups: some of the companies carried out less or the same level of R&D as the average in their industry while others conducted more R&D than their industry average.

Were these strategy differences associated with any differences in performance? Appreciating that companies have different performance targets, we assessed performance with respect to the target that was stated to be of primary importance by the company, in most cases revenue growth. Hence, →

> Combining these strategy and performance measures, companies that acquired some technology from overseas operations performed better than the companies that relied solely on domestic R&D.

Thinking

→ we designated those companies that grew faster than the sample average as highly successful, those that were growing slower than the sample average as less successful.

Combining these strategy and performance measures, companies that acquired some technology from overseas operations performed better than the companies that relied solely on domestic R&D. Hence, those companies that learn from foreign markets about new technological trends and competencies enhance their performance by benefiting from their international exposure. This result confirms earlier research findings on the importance of technological learning for the performance of the international new ventures. However, we did not find any clear association between the percentage of R&D (relative to the industry average) and performance.

Consequently, in our study, performance correlates with technology acquisition but not with R&D levels. Apparently, what matters is not how much a company spends on R&D or new technologies but *how* it spends it: externally (technology acquisition) or internally (in-house R&D).

We also explored whether there were other factors that companies considered to be important to their international success. Some key themes emerged, such as the importance of trust, personal relationships and social capital. Having a network of people they knew and trusted helped companies' international operations succeed. Also, knowing well and trusting the people who run the international offices was crucial for maintaining a competitive position in the market at later stages.

A quick note about trust: this turned out to be important because it improved the value of created social capital and helped build long-term relationships with customers and suppliers. Furthermore, when relationships are based on trust, they often evolve into other areas of business, thereby opening up new opportunities for the company. Trust turns out to be a form of "glue" for doing business internationally.

Another essential factor for many successful companies is a lack of fear of internationalization. Having a mindset that "it is not hard" is very important for early internationalizing companies, as it speeds up their entry into new, foreign markets. Because of first-mover advantages in these industries, these early entries typically strengthen their later positions in foreign markets. It is interesting that a fearless mindset, which was previously reported to be an important success factor for companies from emerging markets, is also an essential factor for the companies coming from developed countries, such as the UK. Hence, we suggest that this factor may have a wider relevance for international success.

It is interesting that a fearless mindset, which was previously reported to be an important success factor for companies from emerging markets, is also an essential factor for the companies coming from developed countries, such as the UK.

Other suggested enablers for successful early internationalization were hiring local managers and having a long-term view of the market. These factors are not entirely new or particular to international new ventures, and they are similar to those mentioned in the mainstream international strategy literature. However, we find that, in order to be successful in internationalization, it is important not only to hire locals but also give them sufficient amount of discretion and trust to enable them to build operations in a foreign market. Discretion and trust give local managers the means to be responsive, entrepreneurial and quick in their operations in their country markets, which is one of the key success factors in such a rapidly developing sector as high technology.

And finally, flexibility of the management team, product and workforce was also mentioned as an important determinant of successful internationalization. Given the high dynamism of the contemporary business world, it is essential for businesses to be flexible to respond to opportunities when they arise, and that, in turn, implies flexibility of the product and employees.

Role of networks and ecosystems

We can also attribute the success of many of these companies to their effective use of networks. First, there is the local network or ecosystem at Cambridge, made up of the university and other companies in the same industry. This network results in a flow of technological knowledge, experienced people, contacts with local venture capitalists and so on. These local networks and the knowledge they imply are also a basis of global competitive advantage.

Should you pursue early, rapid internationalization?

This oversimplifies the dynamics of the decision-making process required to commit to a global strategy, but based on our research of 12 high-tech companies in Britain, a company should consider early, rapid globalization if the majority of the statements below are correct:

- The market in your home country is not large enough to support the scale at which you need to operate.
- Most of your potential customers are foreign, multinational companies.
- Many of your potential customers have overseas operations where they will use your products or services.
- You operate in a knowledge-intensive or high-technology sector.
- Having the most technically advanced offering in the world is key to your competitive advantage.
- Your product or service category faces few trade barriers.
- Your product or service has high value relative to its transportation and other logistics costs.
- Customer needs and tastes are fairly standard across your potential country-markets.
- Your product or service has significant first mover advantages or network effects.
- Your major competitors have already internationalized or will do so soon.
- You have key managers who are experienced in international business.

Second, there are the networks formed between the Cambridge operations of the companies and their foreign sales subsidiaries. Those we interviewed mentioned trust and related factors. Trust-based networks with foreign operations can obviously be built, just as can networks at home with the university, other companies, venture capitalists and so on. For example, ARM (www.arm.com), as their website claims, "provides…everything you need to create an innovative product design based on industry-standard components that are 'next generation' compatible". As one way to build trust, ARM holds an annual or semi-annual reunion day for a large proportion of its employees internationally.

Of course, this is not unique to born globals, but it is a good way to build contacts and trust internally. Internal networks are also important for other reasons: for internal product development (to source and combine knowledge from experts spread internationally within the firm), for sales representatives to facilitate direct contact between engineers and clients to satisfy clients' specific needs, to win business and so on.

Third, there are networks between foreign sales subsidiaries and local clients that are important for high-quality service. They are also key for close contact with the customer (especially for software products that involve proprietary knowledge) in order to understand the client's needs for product development and to determine how to make the client more successful and more innovative for its own clients. In addition, these contacts may help companies to obtain technological knowledge from the client or through the client's business partners that they would otherwise have to develop themselves. Considering that many of these UK firms are, or were, small and did not have extensive networks from the start, the contacts in their emerging networks were important for rapid internationalization to secure business and to source knowledge. This mechanism is probably also behind one of the very interesting findings of the study, that the successful firms in our sample are successful in acquiring new technologies from overseas operations.

Fourth, a company is successful because it has created an ecosystem (that is, a whole network) of companies beyond its clients. It comprises not only almost all companies in the industry in which it has clients, but also companies in many industries that are related to its own industry. At ARM, these companies meet annually on a day that it organizes.

> A company is successful because it has created an ecosystem (that is, a whole network) of companies beyond its clients.

This helps to secure its clients as part of its ecosystem, is a huge source of innovation, is a great platform for announcing its own technological or product agenda, and synchronizes the clients' needs with it in real time. It also helps ARM to reach huge economies of scale, because it →

knows the needs of all its clients for the next three to five years, so it can develop a "gray version" or common denominator that can be customized at relatively low cost for each client. Literally hundreds of the 1,500 or so employees at ARM are involved in building and maintaining the different types of networks we have discussed, a huge investment and cost factor. However, their skills in building and maintaining networks, trust, and social capital have made the company highly successful year after year.

Therefore, networks are at the very heart of successful companies. The presence of networks allows the company to learn about long-term agendas of its local and overseas customers, which in turn feeds product development and secures (to some extent) success/demand of its new products. Consequently, network development is crucial not only for international success, but also for the overall success and growth of the company.

Implications for international strategy

As Sir Christopher Gent, the chief executive who orchestrated Vodafone's remarkable international success (and who has since become chairman of GSK) put it, "The firms that succeed are those that have an international outlook to start with…and the UK has a very open economy, particularly in technology- and science-based industries." Not surprisingly, our analysis of the UK high-tech born-global companies confirms Gent's belief. Furthermore, we also find that the patterns of internationalization of these companies are similar to those in the literature on INVs.

One of the key findings of our study is that all the companies we explored were "forced" to go international, since the UK market for their products was very small or non-existent. Their early internationalization was not a matter of choice, but the only means of survival. Hence, we conclude that the reasons for the emergence of INVs are different for companies coming from large markets (such as the United States or Japan), medium-sized markets (such as the United Kingdom) and small markets (such as New Zealand). As a result, if a company operates in a sector with a very limited home-market potential (or if it thinks of starting business in a market in which there is little home demand), then going international fast seems to be a sound strategy.

We also identified factors that facilitate successful international expansion of firms in this study: the importance of trust, personal relationships, and social capital for successful rapid internationalization of smaller companies. Furthermore, lack of fear of internationalization prompted many companies to aim for international markets very early.

Perhaps most important, our study indicated a potential relationship between acquisition of technology overseas and improved performance. Treating international operations as both the means of survival and an opportunity to learn and develop has clear benefits in terms of performance. Furthermore, acquiring technology abroad seems to be more beneficial than investing into internal R&D. This suggests that companies may find that devoting some resources to learning about the latest technological developments and trends in the international markets in which they operate is beneficial to their future competitive position and performance. ■

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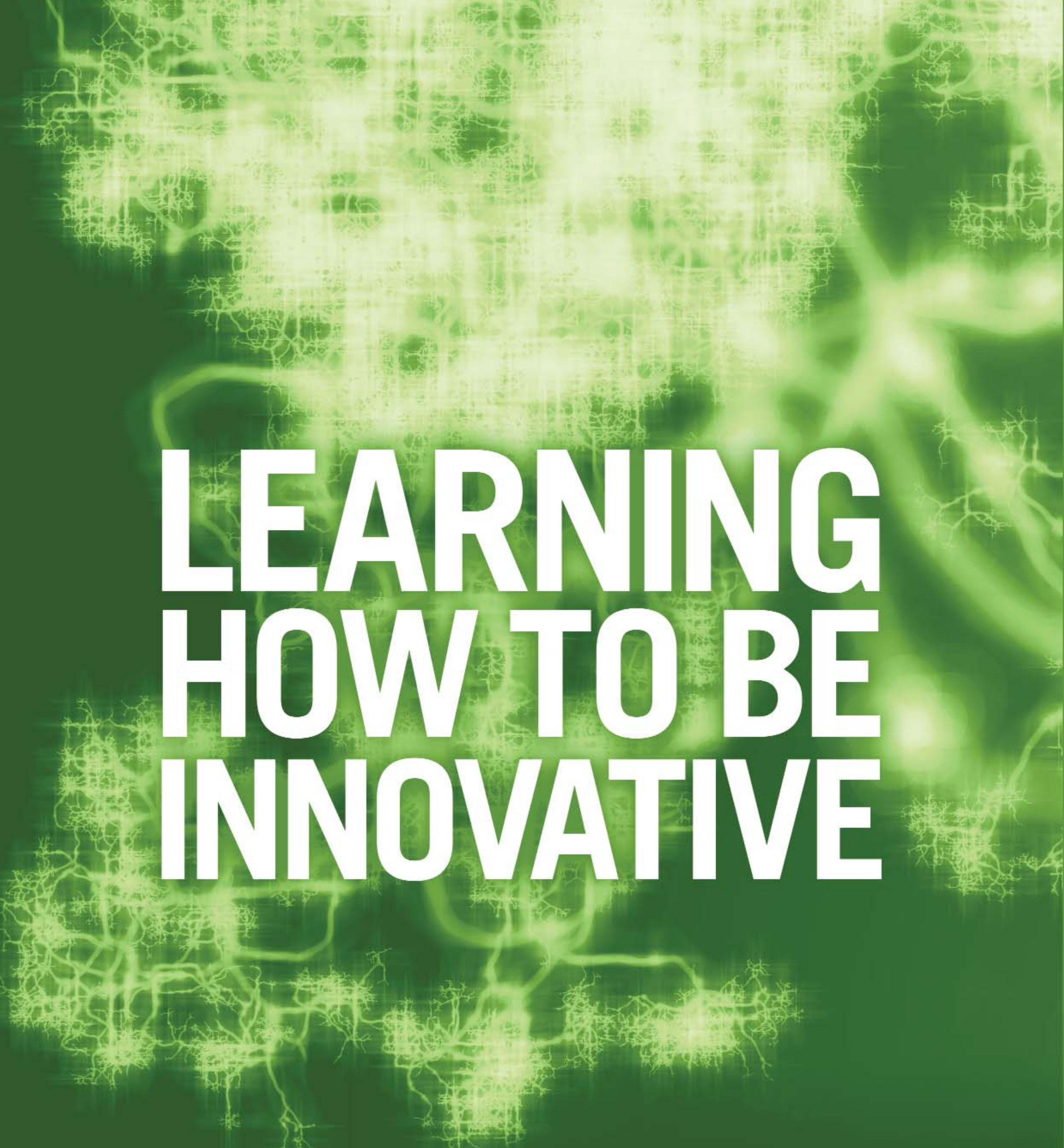

LEARNING HOW TO BE INNOVATIVE

STANLEY SLATER ASSERTS THAT KNOWLEDGE IS THE STRONGEST FOUNDATION FOR COMPETITIVE ADVANTAGE, MAINLY BECAUSE IT IS THE WELLSPRING OF INNOVATION. YET MANY LEADERS AREN'T EVEN AWARE THAT THEY NEED A KNOWLEDGE MANAGEMENT PROGRAMME. THEY HAVE MUCH TO LEARN.

Why some companies languish, seemingly content with a comfortable status quo, while others become innovative trailblazers, relentlessly bringing forth new products or services time and again, has been the subject of many articles and books. From my own review of the literature and base of personal experience, innovative companies tend to share two dominant characteristics. First, they employ a high proportion of scientific, technical or engineering personnel. The second is that, due to relatively short product life cycles, new product development is the foundation for achieving and sustaining competitive advantage in these firms.

It seems that the second factor, new product development, has led to a burgeoning stack of literature on the predictors of successful new product programme performance. Many seem to support the following as reliable predictors of whether a company's new product development process is successful:

- Extent to which emerging products are perceived as satisfying customer needs
- Superiority over competitive offerings
- Focused commitment of personnel and R&D resources to the new product development initiative
- Functional diversity in the new product development team
- Proficiency with which the firm generates and screens ideas
- Complementarity between the requirements of the new product development initiative and the firm's capabilities of delivering sufficiently to meet demand

However, an overlooked area that underlies many of these characteristics of successful product development programmes is the firm's stock of knowledge assets and its knowledge management programme. As Ikujiro Nonaka argued in "The Knowledge-Creating Company" (*Harvard Business Review,* November-December, 1991):

> In an economy where the only certainty is uncertainty, the one sure source of lasting competitive advantage is knowledge. When markets shift, technologies proliferate, competitors multiply, and products become obsolete almost overnight, successful companies are those that consistently create new knowledge, disseminate it widely throughout the organization, and quickly embody it in new technologies and products.

In the new product development arena, the most important knowledge is derived from the technological and market domains. *Technological knowledge* is the knowledge associated with products, technologies and/or processes while *market knowledge* is concerned with customers' needs, adoption processes and reasons for satisfaction or dissatisfaction. Although a focus on developing products based on addressing customer needs has been heavily criticized for leading to (among other things) incrementalism and risk aversion, the weight of evidence is strongly in favour of a strong market orientation. How a company derives its knowledge of what the market-place is thinking can therefore be critical to the success of its new product development programme. This article describes the characteristics of an effective market knowledge management system that was validated in a study of 67 high-tech firms.

Generating knowledge

Competitive advantage is based on the deployment of valuable, rare, and hard to imitate resources. One class of resources that fits this definition is knowledge assets. Market-based knowledge assets include knowledge of customer needs, preferences, buying processes and likely responses to promotion, sales, or pricing moves, and competitors' capabilities and strategies. Such market knowledge is valuable in that it leads to the efficient development of products that are based on in-depth knowledge of customer needs and whose benefits can be effectively communicated to the members of appropriately selected target markets. Market knowledge assets tend to be rare because of the complex processes that are required to create them. Market knowledge is also difficult to imitate since it is an invisible asset and has a relatively short half-life, particularly in dynamic markets. A firm's "stock of market knowledge assets" refers to the amount or extent of these assets that the firm possesses.

In her 1995 book, *Wellsprings of Knowledge* (Harvard Business School Press), Dorothy Leonard-Barton argues that no information "is more important to a technology-based firm than information flowing in from the market, as this information shapes science into commercial product or service."
In my view, there are two important strategies for generating market knowledge: (1) knowledge generated through firm-market interactions, and (2) knowledge gleaned from market experiments.

A market-connected knowledge generation strategy focuses on acquiring information about customers' expressed and latent needs as well as competitors' capabilities and strategies; both are procured through firm-customer interactions. This knowledge provides a focus for the product development efforts of the business, enables the business to develop strong relationships with key customers and provides insight into opportunities for market development. Market-connected organizations develop new knowledge about market →

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→ requirements and how best to meet or exceed them through superior capabilities at market sensing, customer linking and channel bonding.

While market-connected businesses utilize traditional tools of market research such as focus groups, market surveys and secondary databases to generate market knowledge, the value of these tools is limited when it comes to developing innovative products or services. This is the case principally because they rely on users being capable of articulating their needs and also being able to help devise solutions to those needs. Think of the world before Apple introduced the iPod: how many customers would have been able to describe the "need" for such a product let alone the shape, size and design of the audio player?

Since latent needs cannot always be fully articulated, other approaches to learning about markets must be utilized. Thus, proactively market-focused firms also utilize techniques such as structured customer visit programmes to thoroughly understand the customer's environment and needs, lead-user research and close observation by trained anthropologists of customers' use of products or services in normal routines. George Day, in a 1994 *Journal of Marketing* article, argued that these skills enable market-connected businesses to "stand out in their ability to continuously sense and act on events and trends in their markets".

For example, interdisciplinary design team members at IDEO, the award-winning Palo Alto-based design firm, employ a range of observational and empathic techniques to understand the issues people face. IDEO has designed such high-tech products as the Palm V, the Treo communicator-organizer-cell phone, Hewlett-Packard's Omnibook 4100 subnotebook computer, Polaroid's I-Zone cameras, the Steelcase Leap Chair, and Zinio's interactive magazine software. How much of this was from market-connected knowledge generation? As Tom Kelley, IDEO's general manager, once commented, "We are not fans of focus groups. We don't much care for traditional market research either." Alan South, IDEO's director of service design, expanded the sentiment when he said, "The main reason why market research and focus groups are not design tools is that they are only able to address explicit user needs."

Successful innovators undertake low-cost market experiments to learn from the results of those experiments. Experimentation means trying ideas about means for creating superior customer value that are outside of the organization's normal routines, evaluating the knowledge generated from those experiments and striving for consensus on the meaning of the results. A willingness to experiment is a manifestation of entrepreneurial values that include innovativeness, risk taking and competitive aggressiveness. Experimentation is essential to the development of successful new products, particularly in dynamic environments in which customers have difficulty articulating fundamental needs or understanding the benefits of a new technology or new product to themselves. In *Competing for the Future* (Harvard Business School Press, 1994), Gary Hamel and C.K. Prahalad argue, "To push out the boundaries of current product concepts, it is necessary to put the most advanced technology possible directly into the hands of the world's most sophisticated and demanding users."

One such approach is the "probe and learn process" in which the initial product is only the first step in the development process, not its culmination. In this case, the initial product is a prototype that becomes the foundation for subsequent, more-refined generations that follow. Experimenting and probing with early versions provides useful knowledge only when learning from the experience occurs by identifying and analysing the reasons for failure and a refined version of the product and/or marketing strategy are developed. Companies such as Motorola, General Electric, and Corning maintain strong market positions by utilizing this process. More recently, Google has instituted a "fail fast" strategy: launch, listen, improve, launch again. Douglas Merrill, a Google vice president for engineering, explained the company's approach this way: "The thing with experimentation is that you have to get data and then be brutally honest when you're assessing it." Failure may be the enemy of efficiency, but it's an effective way to learn.

> An overlooked area that underlies many of these characteristics of successful product development programmes is the firm's stock of knowledge assets and its knowledge management programme.

Integrating knowledge

When Merrill talked about the importance of assessing knowledge, he implied also that Google

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always wants to make sure that any customer data is shared with the right people. As important as knowledge generation is, the information generated will be of limited value unless and until it is shared across the organization and combined with other information to create organization-level knowledge assets. Indeed, some say that effective knowledge management requires a boundaryless organization, which takes good ideas from disparate functions and outside organizations and uses them in many areas. Lew Platt, former CEO of Hewlett-Packard, challenged the value and applicability of his company's knowledge assets when he said, "If only we knew what we know." These words reflect a tough truth about most organizations: the knowledge and the know-how of their workforce is too often underutilized, isolated in departments and functional units.

Buckman Labs, an $82 million specialty chemical company, launched a knowledge management initiative in the early 1990s. As CEO Bob Buckman noted toward the end of the decade, "We recognized early on that the greatest knowledge base in the company did not reside in a computer database somewhere but was in the heads of the individual associates (employees) of the company. Then it became a question of how do we get each individual to share what they know, freely and openly with others…."

Knowledge-creating firms actively encourage knowledge sharing across people, departments and divisions. Mentoring, communities of practice (company-wide groups that meet in person and online to share knowledge) and action-learning teams that put people together from several disciplines (manufacturing, sales, marketing, legal, finance to solve particular problems) are three valuable ways to disseminate knowledge throughout the organization.

> Market knowledge is also difficult to imitate since it is an invisible asset and has a relatively short half-life, particularly in dynamic markets.

Disseminating knowledge

An effective knowledge dissemination capability is crucial to market knowledge creation. Dissemination may involve the transfer of information at the individual level or at a higher level, such as a team, department or function. An organization is often viewed as a coalition of individuals or groups, each of which has its own goals that may conflict with organizational goals. One way that individuals or subunits promote their interests is by creating and protecting their proprietary knowledge base. While this may be perceived to lead to local optimization, it will actually lead to organizational sub-optimization. Thus, the challenge is to create an organizational environment in which group success does not come at the expense of individual success.

Buckman knew that to create a knowledge management system, he had to get employees to move from hoarding information to sharing it. "Over the years, people have taught themselves to hoard knowledge to achieve power," says Buckman. "We have to reverse that: the most powerful people are those who become a source of knowledge by sharing what they know." For companies thinking about embarking on such a programme, Buckman emphasizes one lesson before all others: "What's happened here is 90 per cent culture change. You need to change the way you relate to one another. If you can't do that, you won't succeed." Looking back, Buckman says that incorporating the knowledge transfer system into a corporate culture is *at least* a three-year process.

One of the most important reasons to disseminate knowledge throughout the organization is that it might walk out the door otherwise. Due to the boom and bust nature of high-tech industries and the mobility of highly skilled employees, knowledge workers frequently leave a company and take their knowledge with them. Compounding this traditional problem is the looming retirement of the 76 million members of the baby boom generation. A logical solution to this form of "brain drain" is to put processes and procedures in place that enable the systematic transfer of knowledge to others in the organization. This can be done through mentoring programmes, fast track programmes, business process documentation and re-engineering, cross training and the creation of "knowledge bases" and expert systems (wikis, blogs and searchable databases). A central store of knowledge is the goal that companies should strive for.

What elements of culture and climate are necessary for this change to occur? Based on my experience and research, the elements that will most determine your company's success at knowledge dissemination are teamwork, transformational leadership, trust and reward systems.

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→ **Team orientation** is the cultural foundation for effective knowledge sharing. In a team-oriented organization, value is placed on working cooperatively toward common goals for which all employees feel mutually accountable. The organization relies on teamwork to get work done.

Teamwork has several contributing processes including (1) conflict management, (2) motivation and confidence building with regard to the team accomplishing its goals and objectives and (3) affect management, which represents those activities that foster emotional balance, togetherness and effective coping with stressful demands and frustration. Team effectiveness is enhanced when teams monitor progress towards goals, track resources necessary to achieve team goals, provide direct or indirect feedback to other team members and coordinate the activities of everyone on the team. Organizations as diverse as Xerox, General Motors, Federal Express and Honda, to mention a few, are reconfiguring management practices to facilitate an organizational structure that stresses team orientation.

As important as knowledge generation is, the information generated will be of limited value unless and until it is shared across the organization.

Transformational leaders have a vision for the future that excites and energizes followers. They have clear values and demonstrate them in every action. They challenge followers with high standards, communicate optimism about future goals and provide meaning for the task at hand. They increase the degree to which members identify with the group. They respect and celebrate the individual contribution that each member can make to the team. Thus, transformational leaders have the qualities that are necessary to create a team-oriented organization.

A.G. Lafley, CEO of Procter & Gamble, is just such a leader. On taking the helm in 2000, he moved quickly to reinvigorate P&G's culture of customer-focused innovation and restructured the company's brand portfolio. Over the following seven years, P&G's profits tripled, earnings per share grew 12 per cent annually and its stock price rose 66 per cent (compared to 10 per cent for the Standard & Poor's 500 index). In 2006, Lafley was named one of "America's best leaders" by Harvard's Kennedy School of Government and by *US News & World Report.* When asked about his leadership style, he described himself as a change agent, a person who puts the organization's needs ahead of his own aspirations, someone with high standards, someone who views himself as a coach and teacher and someone who views failure as a learning opportunity. Is there a better definition for a transformational leader?

Trust is concerned with maximizing the confidence that one team member has in other team members (or that one subunit can have in another subunit) regarding quality of work, meeting commitments and treating each other with respect. Trust is critical to the cooperative behaviour that leads to team success, because being on a team involves a certain amount of risk since members are dependent upon each other to complete the team's task successfully. If one member does not follow through on commitments or tries to take advantage of the other members, this behaviour can cause more work for the team and can lead to poor performance. The performance of knowledge-intense teams is enhanced by trust between and among all team members. Also critical is a high level of trust in the organization's leaders; teams must not feel that they are surrendering anything when they share information with their leaders. It all becomes, in essence, a kind of partnership between everyone in the organization, and trust between partners stems from the belief that there will be mutual benefits from knowledge sharing.

Reward systems are also important for team performance. Team-based reward systems weigh organizational performance more heavily than individual performance. Thus, all functions share the rewards when the organization is successful. Since knowledge sharing should lead to superior organizational performance, it is in the best economic interests of individuals to share knowledge.

A 1998 survey by William M. Mercer, a human resources consultancy, found that 24 per cent of large and midsize companies used such incentive programmes, up from 16 per cent in 1995 and 12 per cent in 1993. "Employee teams that are efficient and well-managed can be a potent force in helping an enterprise succeed," says Mercer's Steven Gross, who adds that "an essential part of the equation involves compensation." Gross says that without a sensible, carefully designed incentive compensation programme that recognizes and rewards team results, a team or group is unlikely to perform at sustained optimum levels.

Starting on knowledge management

So, how does the marketing executive or general manager begin?

A short while ago, a company to which I was consulting was trying to make the transition from an engineering-driven culture to a customer-focused one. A new division manager was brought in to lead the transition. After getting to know the organization, he created a sense of urgency by holding a series of small group meetings in which he reviewed profitability and market share declines and explained how and why many former customers were switching to key competitors. He then opened the meeting for discussion. This was a very proud organization with employees who cared deeply; everyone was quickly engaged.

In the weeks following, the new manager then went about changing the conversation in the business during reviews of all products in the development pipeline. Whenever a product manager (most of whom were engineers) would describe the features of the planned product, the manager would ask, "How does this feature create value for the customer?" It didn't take long. Team members soon started thinking in *customer* terms rather than product terms.

However, many of the engineers in the organization had never met with customers and didn't really know how to think like them. So, the manager began a systematic programme of visits to key customers. This allowed his team to see their products in use, talk to actual users of the products and gain a better understanding of the products' role in the customer's total operation. The visit teams made sure that they could actually see the products in use to understand what was working well and what wasn't. They took every opportunity to ask in-depth questions of their customers. Upon return from a visit, every team member would write a report; then the team would meet to share and synthesize insights. The outcome: they produced a final "trip report" document distributed to everyone in the business unit. More than simply a knowledge-gathering experience, these customer visits were also an opportunity to strengthen relationships with customers, who were no longer strangers to those in engineering and production. The results of these initiatives included improved market share, profitability and higher customer satisfaction.

Other innovative companies such as Procter & Gamble, Microsoft, Xerox, Motorola, Apple, Hewlett-Packard and Intel get inside their customers' lives by using trained anthropologists who visit regular customers and study them at their work. Afterward, they report their findings to the company, which combines the data with results from focus groups, surveys and usability labs to gain deep insight into their customers' needs and problems.

This, of course, is but one way to manage market knowledge responsibly and profitably. A knowledge management system is easy to conceive but difficult to implement. It requires fundamental, and often painful, changes in the organization's DNA. However, the risks inherent in not doing anything are much greater than the risks in making needed changes. Knowledge capital is the strongest foundation for competitive advantage. ■

Stanley F. Slater (stanley.slater@colostate.edu) is the Charles and Gwen Lillis Professor of Business Administration at Colorado State University.

COMING ATTRACTIONS

WHAT ARE THE IDEAS WHICH WILL SHAPE BUSINESS IN THE YEAR TO COME AND FILL BOOKSHELVES AND CONFERENCE AUDITORIUMS? WE ASKED A COLLECTION OF MANAGEMENT THINKERS WHAT EACH IS THINKING ABOUT AND WORKING ON RIGHT NOW.

Michael Blowfield
Academic (Teaching Fellow, London Business School)

If the scientists are right (and most business leaders seem to think they are), we have 15 years to avoid irreversible climate change. That means stopping rising greenhouse gas emissions and with them the rise in global temperatures. To achieve that will require major changes in economic and business life. For instance, the rule that has existed since the industrial revolution that economic growth equates with increased carbon will need to be broken: the talk is of decarbonizing the economy, and generating wealth without accelerating the use of non-renewable materials. And if emissions continue to rise, that too will require change from business which will find itself operating in an era of shifting climatic zones that is likely to be linked to major social and environmental disruption.

The challenge for business is how to achieve transformational change of the kind and at the speed required to meet the climate change challenge. My research is looking at what causes, prevents, assists, and hinders transformational change in corporations in the climate change context. It is a three-year programme working with a wide range of companies in developed and emerging economies: from investment houses to plantations to automakers to logging outfits. Early next year I hope to bring together leading thinkers from different fields including legal, strategy, organizational behaviour, government, economics and technological innovation to debate the possibilities and limitations of change. My research team will also be working with companies and business leaders, getting an in-depth view of what sustainability and change means for the modern corporation.
www.london.edu

Jim Champy
Consultant
Recent work: *Outsmart!: How to Do What Your Competitors Can't* (FT Prentice Hall, 2008)

I'm working on a series of books (four planned) that look at new, emerging business models through different lenses. I believe that there is not a lot new in management to research or write about, but there is a lot new in business. *Outsmart!* focuses on where ideas come from and how they are implemented. It's a form of strategy book. Next will come *Engage!;* it will examine how new business models are acquiring and keeping customers. It goes beyond marketing. The research for this series is based on my looking at over 1,000 high-growth companies – companies that have had double- or

Jim Champy

triple-digit growth over two or more years. From that group, I have selected companies that are really operating differently. My objective is to define the look of business (with advice as to how to get there) for the next decade.
www.jimchampy.com

Peter Cohan
Commentator and consultant

I have just finished my eighth book, *You Can't Order Change: Lessons from Jim McNerney's Turnaround at Boeing* (Portfolio, December 2008). It's my first in-depth analysis of a single CEO, Boeing's Jim McNerney, who uses a *post-Welchian* management style to motivate people, craft growth strategies, tighten operations, and harmonize with communities.

I'm co-authoring *Capital Rising* with Srinivasa Rangan – which introduces a new model of entrepreneurship spawned by the explosion of private capital flows around the world and describes the implications of this model for managers.

I'm teaching Strategic Decision Making, Competitive Environment and Strategy, and Corporate Social Responsibility at Babson College. Earlier this spring, I gave a talk at Stanford on Sovereign Wealth Funds. And my consulting work has focused on helping an Asian government to analyze e-commerce opportunities in specific industry segments and conducting research for a law firm in support of civil litigation.
www.petercohan.com →

Leif Edvinsson

Academic (Lund University)

Recent work: *Intellectual Capital for Communities: Nations, Regions and Cities* (co-edited with Ahmed Bounfour; Butterworth-Heinemann, 2005)

I am very much involved in spreading the learning which came out of the Future Centre, the very first of which started in Vaxholm, Sweden in 1996. Interest is growing in Europe, as well as Asia and South America.

I am also involved in spreading the learning from Intellectual Capital (IC) accounting. This subject is seeing phenomenal global growth. Very strong prototyping has come from the Bundes Ministerium für Wirtschift und Arbeit, Germany. There are other related projects I'm tracking throughout Europe, Japan and China.

There are many other initiatives tied to IC that I'm tracking or are involved with. One quick example: in Austria, a 2007 law requires all universities to present an annual report on their own IC development efforts. The societal evolution of IC fascinates me. I'm chairing the New Club of Paris, which is encouraging nations to develop a knowledge policy and agenda for IC development. I'm also advising a Swedish governmental agency on societal innovation and entrepreneurship.

www.corporatelongitude.com
www.open-futures.net
www.wissensbilanz.org
www.the-new-club-of-paris.org
www.kks.se

Rob Goffee and Gareth Jones

Academics (London Business School, IE Business School)

Recent work: *Why Should Anyone Be Led by You?* (Harvard Business School Press, 2006)

Researching our 2006 book, we talked to many followers as well as leaders in a wide range of organizations, industries and institutions. It was clear that expectations had changed. Followers did not expect to be told what to do. They wanted leadership with respect as well as rewards. Followers wanted, expected and deserved the real thing from those who lead them.

There was a similar sense of shifting perspectives among the leaders we talked to. Leaders realized that certain of their followers generated huge amounts of value for the organization. Their most valuable people (MVPs) were crucial to the success of the organization and yet, at the same time, often the most difficult to lead.

We started asking CEOs who the key people in their organizations were. They were likely to say they have a brilliant finance guy who spots all their mergers and acquisitions or a startlingly innovative woman in software development. Rarely did they point down the executive corridor and remark that one of their fellow directors was the key organizational inspiration. Sometimes we talked formally, other times informally. Along the way we developed a shorthand to explain who these key followers are. We called them the clever people.

Rob Goffee and Gareth Jones

Our new book, *Leading Clever People,* will be published in 2009. In it, we examine the leadership dynamics surrounding clever people. The issues we discuss in the book affect a rapidly increasing number of organizations and individuals. When we set out, we thought we would simply be talking to consultants, lawyers, investment bankers, R&D wizards and other similar smart professionals. We did; but we also found value-creating brilliance in unexpected places: in schools, hospitals – even breweries. Clever people can be any of these and more – schoolteachers, university and hospital administrators, curators at museums. But, as different as they are, they are all capable of creating huge amounts of value for their organizations. Indeed, we have come to the tantalizing conclusion that perhaps the organizations of the future will aspire to be clever all over.

www.whyshouldanyonebeledbyyou.com
www.london.edu

Vijay Govindarajan

Academic (Tuck School of Business, Dartmouth College)

Recent work: *The Quest for Global Dominance: Transforming Global Presence into Global Competitive Advantage* (with Anil K. Gupta and Haiyan Wang; Jossey-Bass, 2008)

I am working with Chris Trimble on a new book, *Disciplined Innovation,* to be published in 2009. For some time, I have come to believe that companies invest extraordinary sums to produce a staggering number of "innovative" ideas on paper that never become anything more than ideas on paper. The real innovation challenge lies *beyond* the idea. It lies in a long, hard journey – from imagination to impact.

Over the past eight years, we have compiled the world's largest and most deeply insightful collection of innovation case studies, rigorously researched histories of endeavours to move innovation initiatives forward inside large and established organizations such as IBM, Dow Jones and Deere & Company. Companies need a better model for innovation. It must begin with an acknowledgment that the forces that resist innovation are not the work of some sort of evil anti-change faction. They are not the result of laziness or timidity, nor can they be blamed on complacency, convention or conservatism.

On the contrary, these forces derive from the outcome of good people doing good work. They arise from efforts to achieve the most basic goals of every business – serving today's customers, defeating today's rivals, operating with speed and efficiency and maximizing profits. This may sound routine. But to do all of this, and do it well, every hour of every day, organizations must operate like Porsches racing down the autobahn. They must be "performance machines". Detailing what a performance machine corporation looks and acts like – and how a company becomes one – is the focus of the new book.

www.vg-tuck.com

Lynda Gratton

Lynda Gratton

Academic (London Business School)

Recent work: *Hot Spots: Why Some Companies Buzz with Energy and Innovation – and Others Don't* (FT Prentice Hall, 2007)

I am still fascinated by the themes of energy and innovation and plan to continue to discover more in 2009. I have just finished a follow-up to *Hot Spots,* this time focusing on what we all have to do to become more innovative and energized. The book is called *Glow* and will be published in April 2009.

I am also working with my colleagues on a series of research and development initiatives around teams and innovation. We are partnering with a group of companies including ARM, Fujitsu, Philips, RBS and Sara Lee looking at how to increase performance and innovation in large, virtual teams. One of the most exciting of these projects is with Singapore's Ministry of Manpower, which has commissioned us to research and write a report about the levels of innovation in the country and to make recommendations to increase innovation. I am increasingly of the view that, as companies globalize, working and learning virtually becomes the norm. With this in mind I am investing substantially in developing state of the art learning technologies capable of delivering tailor-made performance enhancements to individuals and teams.

www.lyndagratton.com
www.hotspotmovement.com

Monika Hamori

Academic (IE Business School)

I have been doing research with Peter Cappelli, a management professor at Wharton Business School, on the changing profiles and career paths of senior executives over the past 20 years. Not that long ago an executive would start in the lower ranks of an organization and over many years work his or her way into a senior position. When an executive made CEO, he was usually well into his fifties or older and had turned in lengthy service at corporate HQ. Today, there is a new route to the top. →

Trends

→ I have looked at a comparison of US and European CEOs leading the largest 500 corporations in Europe and in the United States; I also looked at the socioeconomic background and career experiences of the top 10 managers at each company in the Fortune 100 at two time points, 1980 and 2001. The first thing that became apparent is that the route to the top is not as long as it was a generation ago and it includes fewer jobs along the way. I'm continuing to study and report on this.
www.ie.edu/IE/php/en/claustro_detalle.php?id=606

Oren Harari

Academic (University of San Francisco)
Recent work: *Break from the Pack: How to Compete in a Copycat Economy* (FT Prentice Hall, 2007)

I am becoming increasingly interested in the paradox that goes like this: on one hand, most leaders are now aware that they must initiate significant change in their organizations, strategies and management styles if they want their organizations to compete

Oren Harari

successfully in today's marketplace. On the other hand, many of them simply can't! Simple as that. They know they must, and they don't (for numerous reasons, some reasonable, some not), except for incremental changes at the margin.

At this point, I don't believe that writing more prose about why change is necessary or what sort of change is necessary would be terribly useful. Instead, in my next book, I'm asking a different question: *what can a leader do to create an environment in which significant change will be inevitable, regardless of what he or she does thereafter?*

For example, if a leader gets his or her company to post its research and development (R&D) dilemmas and current R&D projects online for customer input and active involvement, change *will* occur – period. Once the leader sets that environment, change will occur. The leader will then have a tiger by the tail.

My next book (I'll be finishing it in 2009) will be focused on specific initiatives that, if executed with authenticity and alacrity, will take on their own accelerated momentum. I will be discussing what can be done unconventionally with strategic plans, with Web 2.0 and 3.0 technologies, with job descriptions and personnel policy, with branding, with a variety of collaborations and alliances, with new green opportunities and much more. I will also be discussing some empirical research I've conducted that identifies the attributes and behaviours that leaders must have in order to create and follow through with my rather bold suggestions.
www.harari.com

Kathryn Rudie Harrigan

Academic (Columbia University)
Recent work: *Strategic Flexibility* (Free Press, 2007)

I am looking at the acquisition of United States firms by Indian and Chinese firms. It appears that they will happily buy businesses that provide "greasy jobs" and even make greenfield investments in the US where upgraded capacity is needed.
www2.gsb.columbia.edu/faculty/kharrigan/index.html

Andreas Hinterhuber

Consultant and academic (Bocconi University)
Recent work: "Customer value-based pricing strategies: Why companies resist", *Journal of Business Strategy* 29, no. 4, 2008

I am currently working on pricing, which (especially in a downturn) is a more important lever to increase profits than cost reduction or revenue growth. Two recent projects related to this come to mind. First, I have completed a research project on the implementation of value-based pricing strategies. A summary of this research was published in the *Journal of Business Strategy* in the July/August 2008 issue and was also featured in the "Executive Briefing" by The Economist Intelligence Unit.

In a nutshell: it is well known that leading companies link their prices to customer value, not costs and not competitive price levels. It is also well known that this approach (customer value-based pricing) is the overall "best" approach to pricing; seemingly, everybody would like to implement it. It is, however, a fact that only a small percentage of companies (approximately 17 per cent) actually adopts this type of pricing approach. In my research project (involving companies from the US, China and Europe), I investigate the question of what prevents companies from implementing customer value-based pricing strategies. I identify five broad classes of obstacles: (1) value assessment, (2) value communication, (3) market segmentation, (4) sales force management and (5) top management support. I also identify how these obstacles can be overcome to successfully implement customer value-based pricing strategies.

Second, I am currently working on another project directed at understanding the benefits and risks of value-based pricing strategies. Value-based pricing strategies are the overall "best" strategies, according to many; little, however, is known about the financial consequences of adopting a cost-based pricing strategy versus a value-based pricing strategy. In addition, value-based pricing strategies also have risks and limitations. My research involves qualitative as well as quantitative research in business-to-business and business-to-customer industries worldwide, with over 200 executives participating. My aim is to advance our understanding under which circumstances value-based pricing strategies are more or less appropriate and what the financial benefits and risks (short- and long-term) are of adopting a value-based pricing strategy.
www.hinterhuber.org

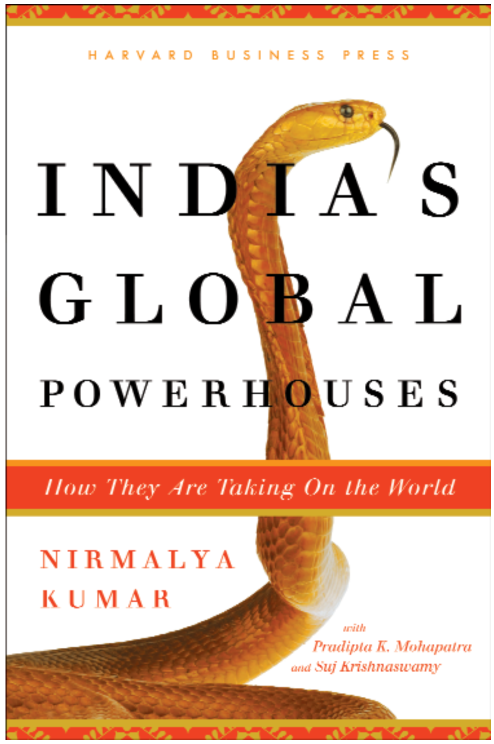
Philip Kotler
Academic (Northwestern University)

Recent work: *Strategic Marketing for Health Care Organizations: Building a Customer-Driven Health Care System* (with Joel Shalowitz and Robert Stevens; Jossey-Bass, 2008)

For the last two years, I have been researching how social marketing can contribute to lifting people out of poverty. I'm working on a book about this with Nancy Lee. The tentative title *Helping the World's Poor Succeed: Creating Poverty Solutions through Market Analysis and Social Marketing.*
www.kellogg.northwestern.edu/faculty/bio/Kotler.htm
www.kotlermarketing.com/phil1.shtml

Nirmalya Kumar
Academic (London Business School)

The project that is occupying all my time currently is a book scheduled to appear in 2009, *India's Global Powerhouses: How They Are Taking on the World,* to be published by Harvard Business School Press. The book is the outcome of two years of research that took me to India more than 10 times.



I interviewed more than 30 CEOs and top executives who are leading the globalization of Indian firms; from those interviews emerged 11 case studies presented on companies such as ArcelorMittal, Bharat Forge, Hindalco, Infosys, Suzlon and the Tata group.

Indian companies have made many high-profile foreign acquisitions in this decade including Arcelor, Corus, Land Rover, Novelis and Tetley Tea. The book argues that the globalization of Indian firms is the outcome of a journey that found the best of them shackled by government policies until the 1980s, took them through a tough corporate restructuring programme in the 1990s to gain competitiveness, and has them spreading their wings overseas in this decade. However, what we are observing is only the tip of the iceberg as many more leading Indian companies will use the scale they acquire in the domestic market to launch foreign operations. Unlike the previous waves of Japanese and Korean competitors, Indian companies have two special advantages: they are populated by many executives fluent in English and comfortable in the Western world; and, secondly, they enjoy a much larger domestic market to exploit. As overseas companies increasingly encounter Indian firms as competitors, customers and collaborators, the book outlines some unique tendencies of Indian companies in these roles. Finally, globalization is not an easy process; and, as such, the book concludes with some thoughts on the challenges Indian companies will encounter as they take on the world.
www.london.edu/assets/documents/PDF/Nirmalya_Kumars_thoughts.pdf

→

Trends

Ed Lawler

Academic (University of Southern California)

Recent work: *Talent: Making People Your Competitive Advantage* (Jossey-Bass, 2008)

John Boudreau and I will be publishing a book next spring. It evolved from research done by the Centre for Effective Organizations (CEO) at the University of Southern California, which just completed its fifth study of the human resources (HR) function in large corporations. Begun in 1995, it is the only long-term study of this important function.

Ed Lawler

Like the previous studies, it is focused on measuring whether the HR function is changing and on gauging its effectiveness. The study focuses particularly on whether the HR function is changing to become an effective strategic partner. It also analyses how organizations can more effectively manage their human capital. The present study compares data from the earlier studies to data we collected in 2007. The results show some important changes and indicate what HR needs to do to be effective. HR practices and organization designs are identified that enable HR functions to be high value-added strategic partners.

www.edwardlawler.com

Babis Mainemelis

Academic (Assistant Professor of Organizational Behaviour, London Business School)

My research explores the relationship between creativity and deviance in organizations. The current thinking in the field is that companies boost creativity by encouraging creative performance; by supporting the safe expression of new ideas; and by providing employees with some autonomy, some time, and some seed resources to play freely with new ideas. My research shows that highly creative work cultures calibrate the motivation of their employees to pursue new ideas to such a high degree that employees often find it difficult to abandon their ideas when they encounter social resistance or rejection. Instead, they often break the norms of their workplace (orders, rules, practices) in order to keep their ideas alive and evolving.

My research shows that the more supportive to creativity the work climate is, the more difficult it becomes for the company to suppress the rate of creativity-related deviant behaviours, and that is not necessarily a bad idea: companies can gain both instrumental and socio-relational benefits from tolerating some degree of creativity-seeking deviant behaviour.

www.london.edu

Henry Mintzberg

Academic (McGill University)

Recent work: *Strategy Bites Back* (with Bruce Ahlstrand and Joseph Lampel; Prentice Hall, 2007)

As you can guess, I am not a fan of next year's hot ideas. So, I am working on old, cold ideas that should be much warmer – well past next year. I am, in other words, writing a book called *Managing* that revisits the subject and argues that it is not leadership, but management combined with leadership, that needs our attention. I am also preparing a monograph called "Managing the Myths of Health Care".

Beyond that, I am having a ball with www.CoachingOurselves.com, a start-up that brings to fruition all that we have done in creating new programmes for management development – by having managers do it for themselves in small groups. It promises to be the hot new idea for the next two or three decades.

www.henrymintzberg.com

John Mullins

Academic (London Business School)

Recent work: *The New Business Road Test: What Entrepreneurs and Executives Should Do Before Writing a Business Plan* (FT Prentice Hall, 2006)

My co-author, Randy Komisar, a partner at Kleiner Perkins Caufield & Byers, and I are working on a new book, tentatively titled *Getting to Plan B.* Harvard Business School Press will publish it in 2009. The book, which draws on Randy's 20+ years of working with and investing in nascent entrepreneurial companies and my research into companies that have created revolutionary business models and

John Mullins

which decomposes their elements, articulates a process by which entrepreneurs can evolve their initial business idea into one whose business model will actually work.

Our thesis is simple: the uncertainty that surrounds most innovations and most new ventures can be sharply reduced by considering alternatives to the initial plan and comparing the current idea with others – analogs and antilogs, we call them – already in existence. The working assumption is that part of or all of one's Plan A is wrong. By mixing and matching elements of business models that are already in use and systematically testing a series of hypotheses that can lead to a better Plan B, the entrepreneur identifies, through experimentation rather than impassioned persuasion, a set of customers that will actually buy and a business model that has a chance to work. Fortunately, there's a route out of the trap that is Plan A.
www.london.edu/faculty/jwmullins

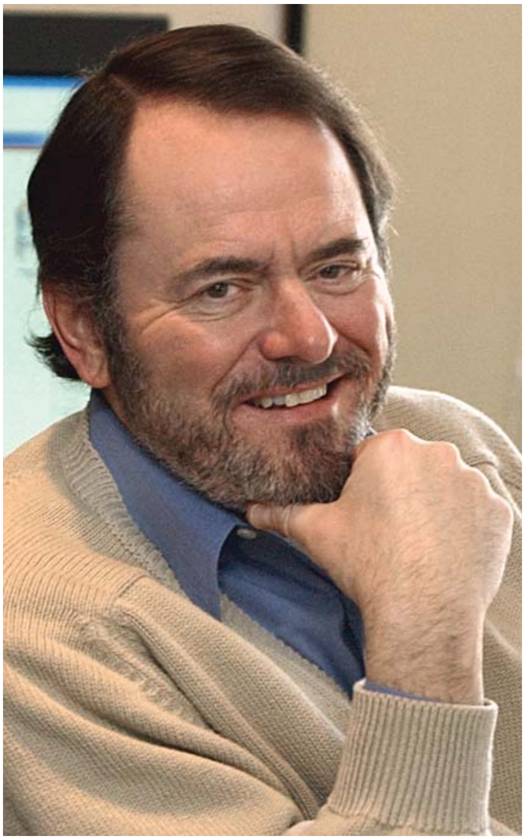
John Patrick

Weblog author and conference speaker

Recent work: *Net Attitude: What It Is, How To Get It and Why Your Company Can't Survive Without It* (Nicholas Brealey, 2001)

I was part of the Supernova conference in San Francisco in June 2008. Among other issues I focused on, social networking really intrigued me. A social network is a structure consisting of nodes (people or organizations) that have a common interest or increasingly a dependency. The tie that binds us can be one or more of many things: values, visions, ideas, financial exchange, friendship, kinship, food likes or dislikes, buy or sell trading, links to each other's blogs, epidemiology or airline routes. Research in a number of academic fields has shown that social networks operate on many levels, from families to countries. The use of the networks is beginning to be a key tool in collaboration to solve problems, how people achieve their goals, and even how organizations are run.

One of the first social networks was Linkedin, and I have been a member of it from nearly the beginning. Hardly a day goes by that I don't get several invitations to become a "friend" or "colleague" with another Linkedin member (or Plaxo Pulse or Facebook). To gain the real "network effect", I recommend being selective in dealing with these invitations. Otherwise you end up connected to everybody, which is as valuable as being connected to nobody. The real power is not in the numbers per se but to really know someone who knows someone who knows someone and to have the credibility with the person you know such that they are willing to help you to connect to someone else. I have 178 trusted friends and colleagues in my Linkedin network. Two degrees away – friends of friends; each connected to one of my connections – there are more than 60,000 people. Three degrees



John Patrick

→ away – members who can be reached through a friend and one of their friends – is 3,200,000 people. If you are discerning about it, you can develop considerable social capital.

There are many issues in the social networking space. One of them is that there are so many networks. How many social networks should you belong to? Certainly not 40. I belong to Linkedin, Plaxo Pulse, Facebook and MySpace. Four is enough for me. But is it? There are many niche networks, such as A Small World, that will be of interest to many. But do you want to create a profile of your personal information at each of the networks you choose? And keep them up to date? And tell your connected friends what you are doing and exactly where you are (latitude and longitude) and what music you like or even what song you are listening to at the moment? To me the glass is half full. I am hopeful that protocols will emerge (such as OAuth, OpenID, and OpenSocial) that will level the playing field. We will be able to use one single "sign-on" for all our websites, create *one* profile, and have control over which networks and which parts of the profile it appears in. For example, it would be nice to create a comprehensive profile that is encrypted and totally under the user's control. You may choose to have your favourite songs be accessible through Facebook but not your medical records from Google Health or your Google Health electronic medical record to be accessible to your primary care physician and your hospital but nobody else. The application you create for your consulting business or a new game you created could be available through *all* the social networks.

Social networking is the next turn of the crank of the Internet. By combining networks, such as mobile phone networks, mobile payment systems, the Internet and a network of people all sharing a common cause, a viral effect can take place resulting in a lot of money or assistance flowing to the need – political, emergency response or (hopefully) humanitarian. I plan to keep a close eye on all of this.

http://patrickweb.com

Jörg Reckhenrich

Painter and sculptor, consultant

Martin Kupp

Academic (European School of Management and Technology)

Jamie Anderson

Academic (TiasNimbas Business School and London Business School)

We are currently working on a book for practicing managers titled *What is Creativity All About? – Learning From the Arts.* Through close collaboration with artists in different executive education settings, we have discovered that a lot of "modern" business management concepts like strategic innovation, the transnational corporation, managing creativity and the like can well be observed in the ancient and modern art world. Learning from artists such as Picasso, Van Gogh or Beuys will not only enable readers to develop a sound and memorable sense of these concepts but will even provide new insights by adding a different perspective. This will be especially true when it comes to the burning topics of innovation and creativity. A close look into the art world can provide valuable and practical insights into questions such as: *How do I test for creativity? Can I train creativity?* and *How do I create an organizational environment that supports creativity?*

www.nextmove-berlin.de
www.esmt.org/eng/consulting/martin-kupp
www.jamieandersononline.com

Lamia Walker

Associate Director, Lehman Brothers Centre for Women, London Business School

Management attention is increasingly focused on managing for value. At the same time, creating innovative and exciting products and services moves to the top of the business agenda as competition for market share increases. So, how best to combine the need for value creation with the need for innovation? Put more simply: how can executives ensure that the resources they invest in are really going to deliver value?

This question was at the heart of a recent study undertaken by the research team at our Centre for Women in Business. In the report of this research, "Innovative Potential: Men and Women in Teams", we take a closer look at what drives value creation through innovation. The research team surveyed more than 100 teams of knowledge-based workers from 21 companies in 17 countries. Working with companies such as IBM and Volvo, we looked at what really made a difference to innovation and, in particular, looked at the impact made by the proportions of men and women. This is an important question since many of the teams that organizations create do not have gender parity. Our question was what the optimal point is for innovation and efficiency in professional teams. What clearly emerged is that the best mix to achieve value creation and innovation is 50:50 proportions of men and women in teams. Too many men (or indeed too many women) in the team tips the balance of value creation and innovation.

So as the recession bites and you want to ensure that every resource is really working, you would be wise to ensure that the teams you construct are

Lamia Walker

made up of equal proportions of men and women. By doing so you are ensuring that your company selects from the most diverse talent pool.
www.london.edu/womeninbusiness.html
http://www.london.edu/assets/documents/Word/Innovative_Potential_NOV_2007.pdf

Douglas Ready

Academic (Visiting Professor of Organizational Behaviour at London Business School; founder and president of the International Consortium for Executive Development Research)
Recent work: "Winning the talent race in emerging markets", *Harvard Business Review,* November 2008

I am working on three major themes at the moment:

Winning the talent race in emerging markets. Most companies today place *growth in emerging markets* as a core element to their enterprise strategies, yet few understand how to source, develop, motivate and retain the talent they will need to win in those markets. Companies that simply try to transfer in a wholesale fashion their current talent initiatives into emerging markets are finding it difficult to get and keep the people they need to stay out in front.

I have just finished a major research project on what some companies are doing to win this talent race in emerging markets (along with Linda Hill from Harvard Business School and Jay Conger from London Business School and Claremont McKenna College). We stress the importance of companies creating a *Talent Compact* with their people, and underline the importance of a simple message: that winning the talent race in emerging markets is about *promises made and promises kept.*

Shaping your company's collective ambition. Why is it that some companies can operate as integrated entities, where the whole is greater than the sum of their parts, while others struggle, without a sense that something greater is holding them together? Several years ago I wrote an article entitled: *Leading at the enterprise level*. In it I argued that effective enterprise leaders placed equal attention on driving performance (the doing aspects of leading) and creating climate (the being aspects of leading). But that work focused primarily on the role of leaders as they migrated from unit to enterprise leadership responsibilities. I am now taking this to the organizational unit of analysis by suggesting that great companies must also pay careful attention to the doing and being elements of running their organizations. As such, the companies that focus, not only on strategy and execution, but also on building the cultures conducive to making those strategies happen, will be more successful in the long run. In a sense, this work will be stories told about the journeys of companies coming together as one in times of high turbulence and change.

What will it take to lead in next-generation organizations? A great deal of attention is currently placed on gaining a better understanding of what new behaviours and perspectives will be required of leaders in the future, but many of these studies are done out of the context of the fundamental changes taking place in our organizations and in these companies' business models. This study will examine the interplay between building new organizations and the leaders who will guide them as parts of an integrated fabric. We will be working with our ICEDR company partners (40 companies from around the world) to take a look at how our organizations and leadership requirements are changing simultaneously, and the outputs will be presented at a forum at Harvard Business School in June 2009.

Where is *your* blog?

The next frontier for weblogs is here: top business leaders are going online to speak on behalf of their companies. A silly diversion or a major competitive trend? **José Esteves,** who tracks the blogosphere with a unique passion, says the first lesson from his extensive research is obvious: put blogging on your personal to-do list.

Bob Lutz is Vice Chairman of General Motors, a company facing major marketplace challenges yet one that generates over $170 billion in revenue per year. So how does Lutz spend his time? Well, he spends valuable hours blogging – not just reading weblogs but writing his own. GM customers and others are responding, and now other GM execs have followed his lead.

Karen Christensen is the CEO of Berkshire Publishing Group, a forward-thinking publishing company that recently published the multi-volume *Berkshire Encyclopedia of China.* Christensen says it's "the first major Western publication to integrate Chinese history with a wide range of contemporary issues". So, how does this CEO keep in touch with her customers, suppliers and distributors? She posts a few hundred words on her blog at frequent intervals. She even provides links to the blogs that she likes to read when she's not writing.

Craig Newmark is the founder of Craigslist, which one source described "as a centralized network of online communities, featuring free classified advertisements (with jobs, internships, housing, personals, for sale/barter/wanted, services, community, gigs, resumé, and pets categories) and forums on various topics". Newmark's company is now worth some $5 billion, but this software engineer insists on staying close to his online community. So he blogs. Titled "Newmark's Door," the blog is (per the author) about "things one middle-aged economist finds interesting". Many days, Newmark offers numerous postings.

For most of this decade, I have been focusing on understanding how information systems interact with business processes and human resources management. As part of that mission, I track the world of business weblogs assiduously. This is, admittedly, a specialty field. Many in the business world don't even know that business executives write regular blog postings. At the end of this article, I'll share with you my favourite executive blogs; but, first, let me share some background on my research. I honestly believe that blogs can help you and your company become more competitive – or, perhaps, sink you and your company.

Enterprising systems

I started realizing the importance of blogs in 2002–2003 when I was working on my doctorate, and I was looking for forums and communities related to my topic. At that time, I discovered some blogs and bloggers and started reading them; I immediately grasped the potential of discussing and interacting with experts in my own field. Very soon, I discovered that even people without expertise were also providing their opinions, and more and more people were starting to get involved in talking to one another about subjects that I was directly interested in. At the beginning, my focus on blogs was more IT-related. I read and engaged people in the IT world principally, but nowadays there are no boundaries or limits for blogs – and I am fascinated by all kinds of weblogs, especially those that are business-related.

Relatedly, enterprise systems software packages support the management of the whole organization. The big issue to stress is that these systems change companies, their way of working and their culture; they are increasingly critical to a company's success. So they are all about human behaviour – individual, organizational and social – and we should analyze IT/IS at these three levels. Weblogs, especially now that senior executives are becoming so directly involved, naturally fall into this field of study.

But blogging is a new trend in more than the business world. As chair of eGovernment Software AG-Alianza Sumaq, which focuses on the analysis and understanding of eGovernment initiatives in Spain and Latin America, I am seeing that the Internet is having a profound impact on many fields, including the ways in which governments and public administrations provide services and interact with citizens. The new frontier is e-democracy (or e-participation), which attempts to improve the active participation of citizens in important issues for countries and societies. A team of us have done some research in this topic, and it is amazing how this new tool has improved the image and visibility of some politicians, especially in local government. At a national level, there is the growing example of the impact of blogs and other kinds of →

→ interactivity (called "Web 2.0") in US elections. American candidates take this new communication channel very seriously.

Blog basics

A blog is more easily seen than defined. Simply put, it is a Web page on which an individual can post news, information, pictures, videos, graphics – usually underscored by a high amount of candour, if not overt attitude and opinion. Blogs often provide a conduit by which readers can share their own thoughts as a counterpoint to the blogger's. Some blogs are confined to a fixed audience, say the employees and managers of a single company. Other times, blogs are public, available for reading by anyone. I'm not sure anyone has a precise number on how many blogs there are. Technorati has indexed at least 120 million. They now subdivide their reporting on what's happening in the blogosphere, as it's called. For example, you can find news about what's happening today with business blogs by going to http://technorati.com/business. I should also note that there are blogs by businesses, which are general pages by and about the products and services of the company. Then there are personality blogs, such as the one by GM's Lutz that allows him to speak his mind in a more personal manner.

Despite the proliferation of articles, white papers, books and blogs promoting blogging as the next big thing, there is a lack of research studies investigating blogs as a business tool. Moreover, very little academic attention has been paid to the content of corporate blogs and to the topics discussed in them. This is problematic in three ways.

First, blogs are becoming a principal communications channel for companies to link with their customers. And it is not a one-way channel. I'm thinking now of some of the customer comments on the GM weblog regarding quality, service, whether the Hummer division should be sold and lots more. This is the kind of feedback that companies have too long wished for but lacked. Or it's feedback for which they had to pay millions by using professional research firms.

Second, blogs are directly starting to affect the branding of companies. As more and more people connect with companies through their Internet face, that face shapes their sense of a company as much as using its products does.

Third, blogs can be such powerful tools that companies cannot afford to take a laissez-faire attitude toward them. I have been tracking the kinds of words used by CEOs in their blogs. When a political leader uses a set of words over and over, it usually reveals an agenda (or, at least, a concern). That's true for CEOs as well, as far as I can tell by tracking their blogs. More than that, I have also been studying how blogs indicate how a company's corporate culture can affect its communications practices. For example, it's fascinating to study a blog just in terms of its disposition on matters of gender or diversity. If you don't think prospective employees are doing the same thing, you should. To be blunt, a high-talent candidate for employment in your company could alter his decision one way or another based on how the company's website and blog appear.

There have been reports of employees who have been loose-lipped on a blog, revealing proprietary information, for example, and who have suffered as a result. On a much higher plane of concern, the French company, Vichy, found itself front-page news when a manager created a false blog that was woven into the launch of a new anti-aging cosmetic product. A fictitious person was put forth in the blog as a fan of the new product; but bloggers caught on to the fakery and blasted the company. Now, whether it's *Le Monde* or *The Times,* I would doubt that any employee of any company would like to make news by mismanaging a blog. But the story shows the power of this emerging medium.

Blogging rules

If you're thinking about starting your own blog, which you should consider, you need to be aware that blogging has become enough of a communications art form that there are widely agreed-to rules for bloggers. This applies doubly to business bloggers, since the consequences (think Vichy) can be significant. What are the rules? Charlene Li has a very professional page about this; it's located at http://blogs.forrester.com/groundswell/2004/11/blogging_policy.html. She lists a "Sample Blogger Code Of Ethics" and I would endorse her sentiments:

- I will tell the truth.
- I will write deliberately and with accuracy.
- I will acknowledge and correct mistakes promptly.
- I will preserve the original post, using notations to show where I have made changes so as to maintain the integrity of my publishing.
- I will never delete a post.
- I will not delete comments unless they are spam or off-topic.
- I will reply to emails and comments when appropriate, and do so promptly.
- I will strive for high quality with every post – including basic spellchecking.
- I will stay on topic.
- I will disagree with other opinions respectfully.
- I will link to online references and original source materials directly.
- I will disclose conflicts of interest.
- I will keep private issues and topics private, since discussing private issues would jeopardize my personal and work relationships.

Yet one should not focus only on the risks of blogging. There are also many rewards that can accrue from the time you invest in blogging. For corporations, the attractions of corporate blogging are varied but include improving market status, personalizing customer relationships, boosting public relations and improving recruitment. Corporate blogs are also being used to foster internal collaboration and improve knowledge management. One of the key benefits of corporate blogging is that companies can track thousands of posts and know what Internet users are thinking about in real time.

Microsoft Research Labs, for example, uses blogs and video blogs (vlogs) to allow employees to share information and ideas with each other and a wider audience. In his own blog, Jonathan Schwartz, President and CEO of Sun Microsystems, (http://blogs.sun.com/jonathan) says: "We've moved from the information age to the participation age, and trust is the currency of the participation age. Companies need to speak with one voice and be authentic. Blogging allows you to speak out authentically on your own behalf, and in the long run people will recognize that. Do it consistently and they trust you."

One analyst posted the 15 most popular business blogs. The companies included Boeing, Kodak, Dell and Adobe. (His listing can be found on http://mariosundar.wordpress.com/2008/05/05/top-15-corporate-blogs-ranked-may-2008.)

As mentioned, I have my own list of best blogs by business leaders. There is a website that tracks this as well; it's at www.corporateleadersblogs.com. Last I checked, kudos were given to blogs posted by Jonathan Schwartz of Sun Microsystems, Scott Ragsdale of Naseba, Reed Hastings of Netflix and a number of other names and businesses you might recognize.

I would say that I spend one or two hours per day, on average, in the blogosphere. I not only read blogs, but I also do my own posting (http://technology.blogs.ie.edu). My central message to stress to you: blogging is public communication and should not be taken lightly. Before you post to your blog, spend some time thinking on the topic, writing the post, collecting information, getting more informed about the issue and generally preparing yourself to post your thoughts. Blogging is a commitment; it takes a lot of time, and it is not as amateur as many people think. Every time I post to my own blog, which is a reflection of the business school in which I teach, I am fully conscious that my post must well represent the area of expertise I have worked so hard to cultivate. I'm always aware that many readers will read the posts.

Lest this sound like "too much work", please be assured that one becomes more comfortable with communicating via this medium in a very short time frame. Think about blogging the same way you think about business letters, emails or any important presentations. Remember your hesitance and possible discomfort when you prepared your first major PowerPoint presentation? After a dozen, it's standard communications procedure, isn't it? Blogging is yet one more way to connect with the larger world. And, while it's important not to be cavalier about how you do that, it's also a unique way to reach out to the world.

Despite the proliferation of articles, white papers, books and blogs promoting blogging as the next big thing, there is a lack of research studies investigating blogs as a business tool.

Blog trends

A team of us have been analysing the blogging strategies of companies in the Fortune 500. We compared the posts of corporate blogs between 2005 and 2007 and used content analysis techniques to better understand the content and objectives of corporate blogs. We identified a major shift in how corporate blogs are used. Blogs have moved from being sales support tools to becoming essential elements in brand advocacy and communication. There is no longer any question that corporate blogs have become a channel to engage brand enthusiasts (rather than simply engage in light dialogue with consumers: "thanks for your feedback" and the like) and a communication tool for stakeholders, especially stockholders and potential investors.

Another key finding is that most Fortune 500 corporate blogs still do not maximize blogs as a participation tool. Instead, most are designed and written in a unidirectional way, mainly as advertising channels. The blogs with bigger audiences and greater audience feedback are those to which very senior executives contribute directly. Again, take →

Trends

My Top 10 Business Executive Blogs

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7


8


9


10


1 AUTOMOTIVE INDUSTRY

Bob Lutz, General Motors

http://fastlane.gmblogs.com/archives/category/bob_lutz

While Lutz is trying to promote GM's product development in its best light, there's room for discussion and debate. For example, one post in August 2008 generated more than 100 responses.

2 CAPITAL MANAGEMENT

Chris Mercer

http://www.merceronvalue.com/

For a blog that focuses on money matters, this does an excellent job of communicating ideas. Mercer is also excellent at recommending books of note.

3 COMMUNICATIONS

Jeff Pulver

http://pulverblog.pulver.com/

Pulver is someone whose business deals with Internet communications. He excels at the use of photos and videos.

4 CONSULTING

Steve Goldstein, Alacra

http://www.alacrablog.com/

Goldstein's company "provides a variety of information services to financial institutions and professional service firms". His blog is loaded with information, but it is displayed in an easy-to-read fashion.

5 INFORMATION TECHNOLOGY

Peter Caputa, Whizpark

http://worcester.typepad.com/

This is a good example of a blog that has no frills, just basic communication about the ideas shaping the IT profession.

6 INFORMATION TECHNOLOGY

Ross Mayfield, Socialtext

http://ross.typepad.com/

A great example of a different approach to discussing IT issues. Mayfield lays out a compelling page that is hard *not* to read because of its typographical power.

7 MARKETING

Tim Dyson, Next Fifteen

http://siliconvalleypr.blogspot.com/

Dyson leads a company that connects 800 marketing and PR consultants worldwide. In regular postings, he muses on current issues in short strokes that invite a strong following.

8 NON-GOVERNMENT ORGANIZATION

Craig Newmark, Craigslist

http://newmarksdoor.typepad.com/

Newmark is the founder of Craigslist. He uses this blog to speak as much as a world citizen as business pioneer. He really isn't afraid to be personal, such as offering his view of television personalities. Warm and funny, this makes Newmark seem as human as can be.

9 PUBLISHING

Karen Christensen, Berkshire Publishing

http://www.berkshirepublishing.com/blog/

Christensen's interests range from her home base of Massachusetts to business activities she sponsors in China. The website keeps track of her across the globe.

10 SALES

Brian Carroll, intouch

http://blog.startwithalead.com/

Carroll is in the sales field; and, if you can't sell yourself first, what can you sell? A site that tells you what he is doing and thinking – and where he is going.

→ Lutz at GM. We are focusing here on a vice chairman of the company, and it would be easy to think that Lutz is someone with a big title whose job is, essentially, public relations. But that's not the case.

Just read his biography. He was named General Motors vice chairman of product development on September 1, 2001, and soon named chairman of GM North America. He also served as president of GM Europe on an interim basis in 2004. Prior to that, he was CEO of Exide Technologies. He also worked 12 years at Chrysler, where he was vice chairman and also served as president and chief operating officer responsible for Chrysler's car and truck operations worldwide.

So, when Lutz talks about the importance of blogging, it rings sincere to me: "This issue," he says, "this question of how do we increase awareness, improve our image, and enhance public opinion of our cars and trucks, is weighing on everyone's mind in this company, from the plant floors to the boardroom." He then added this note on his blog: "We need to step up our non-traditional communications and word of mouth, and get our message directly to the people on a grass roots level. This blog is one example – but we need more avenues, and bigger ideas. What do you think?"

I like to quote this posting by Lutz because it's important to note that he is asking for feedback and not just using the Web to communicate his ideas.

What Lutz, and other business leaders like him, realize is that using a blog can be a competitive advantage, or it can at least challenge the competitive advantage of a corporate rival. More and more, investors and analysts are searching for information about companies, their boards and top executives; and this is where you may lose competitive advantage as a CEO to your competitors if you do not employ blogging. Investors may not be able to easily find information about you, your current opinions, your vision, your standards and so on. They may decide to invest in the company of your competitor because they trust that CEO more, simply because the other company's blog offers more transparency and thus promotes a feeling of corporate trust. I would say that, in terms of thinking about business and strategy, it could be a severe mistake to underestimate blogging as a communications tool.

At best, corporate blogging is about leadership, visibility and conversation in the digital world. It is an excellent way for CEOs to express their opinions and visions about their companies and about topics such as corporate social responsibility, diversity, market sector evolution – even crisis management. Corporate blogging is also about establishing trusting relationships. Blogging is increasingly at least an aspect of corporate leadership. The intangible benefits come from creating global conversational networks about new ideas and innovations. Thus, it's a new metric for corporate leadership, now at the same level as the latest increase of your market share or how substantial your corporate return on investment is. Blogging is not something that would be nice to think about. As a corporate leader, it's something you have to think about. ■

> I spend one or two hours per day, on average, in the blogosphere. I not only read blogs, but I also do my own posting. It's public communication and should not be taken lightly.

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Special report

The Change Agenda

Special report

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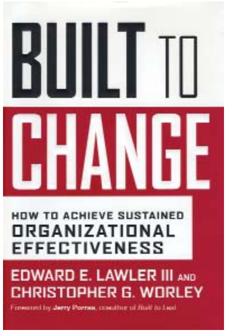

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71 **Senge and sensibility**
Peter Senge has long championed the need for change – both organizationally and in society as a whole. Now, in his new book, he ups the ante arguing that a revolution is necessary.

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I CHANGE. YOU CHANGE. HE, SHE, IT CHANGES.

Conjugate the verb in any language, and you'll still find that people and organizations have enormous difficulty changing. Arie de Geus, the noted author and executive, used to say that, based on his research, the average life expectancy of a multinational corporation was between 40 and 50 years. (How old is *your* company, by the way?) One suspects that it's the rigid top managers of these unchanging companies who precipitate this untimely demise. But whether it's an inflexible business model, outmoded product line or phlegmatic management, companies that won't change are not necessarily companies that can't change. Or *be* changed.

That's why we assembled this special section. We sought out some of the best thinkers on leading change and distilled their wisdom. Michael Jarrett is Europe's leading thinker on the subject of change. Here you'll find his thoughts on "The new change equation" in which he challenges the commonly accepted approaches to change in favour of "a firm understanding of the external environment and a grasp of your internal choices".

Charles Spinosa, Billy Glennon and Luis Sota profile "The virtues of transformational leaders", a fascinating way to describe the four traits that these authors have seen, time and again, as essentials for major corporate change. "Great leaders," they assert, "grow extraordinary companies in ways that make their whole industries more highly valued." And, having looked at leaders in over 100 companies, their perspective (and prescription) for change leadership carries significant weight.

You'll also find two new features for this journal: we have scanned more than 25 years of change literature and provided you both "A change compendium" (short quotations about change from thinkers such as Peter Drucker and C.K. Prahalad) along with the seven books we posit as the best to be found on the subject of change.

"Some companies exist only as a name, a brand, an office building or a memory: remnants of a glorious past." When Arie de Geus wrote those words (in his Harvard book, *The Living Company)*, more than a decade ago, he was making his own plea for the need for managers to change with the times. It was, and is, a memorable line. For it divides the entire business world, if you will, into two categories: those companies on their way to becoming more viable and those on their way to becoming remnants. The former understand how to lead organizational change; the latter were too busy to become better. ✣

Senge and sensibility

From *The Fifth Discipline* to his latest book, *The Necessary Revolution,* **Peter Senge** has ploughed a unique and groundbreaking furrow. He explains to **Stuart Crainer** why change is imperative.

Peter Senge popularized the notion of the learning organization in his book *The Fifth Discipline* – although Chris Argyris first used the term over a decade earlier. Senge summed up the learning organization as "a group of people who are continually enhancing their capability to create their future". This involves an approach to learning going far deeper than the simple once-and-for-all digestion of information. According to Senge, learning is "about changing individuals so that they produce results they care about, accomplish things that are important to them", and it is the best way for a company to come to terms with a rapidly changing world.

In spite of the book's somewhat surprising popularity, Senge was disappointed with companies' responses. They either paid no more than lip service to it or turned their backs on his learning strategies altogether. Many corporations were mistake-averse, often punishing those making mistakes even when the errors were relatively harmless.

He realized that one of the most change-averse elements within an organization is its culture. It can often survive downsizing or re-engineering with remarkable tenacity, but new forms of learning cannot go far in the face of cultural hostility. In *The Dance of Change*, Senge reflected on these failures, arguing that understanding the factors that are obstructing change is needed first. Senge isolated three elements that promote change; on the other hand, he also found 10 reasons for doing nothing or for moving backwards. He hints that the forces of inertia within an organization may be so great that they frustrate even the most driven CEO but says that some of the obstacles can be redrawn to help develop a learning organization. For example, an excuse for not adopting a change initiative is often "lack of time". If this is taken sincerely, it can be an opportunity to reframe the use of time within the organization as a whole.

Then, in *Presence,* based on hundreds of interviews with businessmen, academics and scientists, Senge examined the nature of change and their ways of dealing with it. It presented a radically new approach to learning. In his latest book (co-authored with Bryan Smith, Nina Kruschwitz, Joe Laur and Sara Schley), *The Necessary Revolution*, Senge once again strikes out into unknown territory for a business book.

Obviously the people you're talking to, people who work in organizations, aren't natural revolutionaries. While people understand the argument, are they prepared to act?

Well, we all act to the degree of which we're capable and willing. Almost all the stories and examples in the book involve people and organizations with which a bunch of us have had a long-term involvement. One of the hardest things about this book – and it was very different in many ways from *The Fifth Discipline* – is that almost all of the stories are out of date by at least a year or two already because of the inevitable delays in writing and editing, revising and all that; so there are much →

→ better stories today about how a lot of those projects have continued to unfurl.

Do you think that the economic downturn will halt people's enthusiasm for some of these ideas?
It's a very natural question. You can look at it two ways. Obviously, resources of many sorts are going to be constrained. With innovation, at some level there's always an investment process. You're investing time, energy, money and other kinds of resources now for some bigger benefit down the road. So investment just gets harder. On the other hand, I think most people are pretty clear that we're at the very beginning of much bigger changes; and the problems that are happening, whether they're purely economic, natural disasters or social instabilities, most of them pretty much tie right back into the reasons we're doing this in the first place.

So, I think the downturn will have an effect but I believe that all real, deep change comes out of people making choices, often profound choices. There is an old joke that gravity is not negotiable. These are not matters in which human beings can go 180 degrees opposite to the way nature works. So, in that sense, I think that the bubble is collapsing and most of the major issues we face in the world tie back to that. The impetus doesn't get less: it gets greater.

There are exciting things and interesting stories from around the world in the book. Is there a sense of a movement, some sort of commonality that unites them?
I think so. All these issues reflect our inability to see interdependence. We've created this incredible web around the world, and yet we're mostly blind to it. Naturally we're blind to how it operates beyond just what it gives us in the immediate sense; and when something goes awry, we're suddenly shocked.

If you look back over several hundreds of years, I think there has been a paradoxical decline in our ability to understand interdependence. Never before in history have day-to-day choices made by individuals been so affected by people on the other side of the world. I think that when we lived in an agrarian culture, we had to be much more aware of our interdependence with the soil, rain, wind, weather and all that stuff. Probably if you go back even further, into tribal cultures, before the agricultural revolution, that sense of interdependency was even greater. I read not too long ago that many American kids think their food comes from the grocery store, and the concept of seasonality in fruits and vegetables has no meaning. We've so cut off our sense of even the most obvious dependence on the natural world to create our food. So we've got this extraordinary irony: the web gets thicker and our awareness of it gets less.

We've created this incredible web around the world, and yet we're mostly blind to it.

Do you get different reactions when you travel around the world? Could you see that in a country like China, where the emphasis is on harmony, interdependence is more easily understood than it is in California?
Yes, there's no doubt about it; the Oriental cultures have this heritage. I think in part it's because there's more direct lineage to their native peoples. If you look at our history in the West, there has been so much cultural change, one culture after another wiping out the other. But in China, India, Tibet, much of Asia, you have more continuity culturally. As a result, there's more of a systems world view. It's much easier for the Oriental mindset to grasp the idea of interdependence and continual change.

I spend about a month a year on average in China. Actually, I would like to spend more, because I think it's important for our collective future. For a whole bunch of reasons, I would characterize the contemporary Chinese culture as extraordinarily non-collaborative, very low trust, and in some part that's due to the Cultural Revolution. A whole generation grew up in an atmosphere with a lack of trust. We're doing a lot of projects there, and we're trying to get all kinds of collaboration going. It's really tough there, whereas the Japanese, as an island culture, have an extraordinarily strong history of working together.

How do you spend your time?
I work mainly on projects. I don't do consulting in the traditional sense; I really haven't for 15 to 20 years. What I do is work on big projects, most of them collaborative. Since the Sustainability Consortium got started, I've had the opportunity to work in all these food, water and energy kinds of projects. In China, the main project that we're struggling with is getting a bunch of organizations to work together to quickly come to world-class levels in energy efficiency. Part of China's problem could be addressed in three to five years: they literally build and operate manufacturing facilities at 1950 levels, in terms of energy usage. So we're trying to get a group of organizations working together, becoming more and more sophisticated, so they can lead a transition to alternative sources of energy.

How do you describe yourself? You're not a consultant – are you an academic?
Obviously I've been associated with MIT forever, but MIT is also very eclectic; I always call myself a hanger-on. Academic institutions can

Peter Senge: A necessary revolutionary

be extraordinarily political, and I was just not interested in that, so the best term I could use would be something like "community organizer".
I remember reading a book that had a huge influence on me when I was in college and trying to do some community projects, *Reveille for Radicals* by Saul Alinsky. It's quite a famous book in the US in the history of community organizing, and a lot of what I learned from that book has really worked well. When all is said and done, the work of good community organizing comes down to people having a high level of responsibility for their own efforts; and, while they might thank you for your help, at another level they know they don't need you. Then, of course, you're always trying to get all these diverse parties, often including those that have very low trust and maybe a high level of antipathy for one another, to actually work together for the benefit of the community. So, it's the best kind of professional label I've been able to figure out. It is pretty close to what I do.

A lot of my time is spent talking to people and saying, you should talk to so and so. I'm a referral agent, trying to get people connected. Then projects start to take off, and I may help and advise, show up at different meetings; and a lot of times, I will be honest with you, I think I'm an excuse. I'll come to one of these meetings, and then more people show up because I'm there; but in my mind, I'm almost incidental, because the real work is the organizing before and afterwards, and who they invite and how they get the right kind of people to show up. I'm there for two days, and I maybe give a half-hour presentation and participate in the dialogue. Of course, I love it, because I know that something can really happen when a lot of people get involved, because one person can't do it alone. But start a network of effective organizers and get the involvement of the key companies in the region, and some of the governments, and then things can really start to happen.

Your career seems to have moved to a different beat from other business thinkers.

That's probably true. I think it's partly that business was always a vehicle for me. My background was systems, and my patch (and that's one of the reasons it's really nice for me to be able to work like I do) was at Stanford when Paul Ehrlich wrote *The Population Bomb* in 1968; my roommate worked in his population biology laboratory. I came to MIT, and so I grew up with these issues. I realized that all the people I knew were basically writing books and →

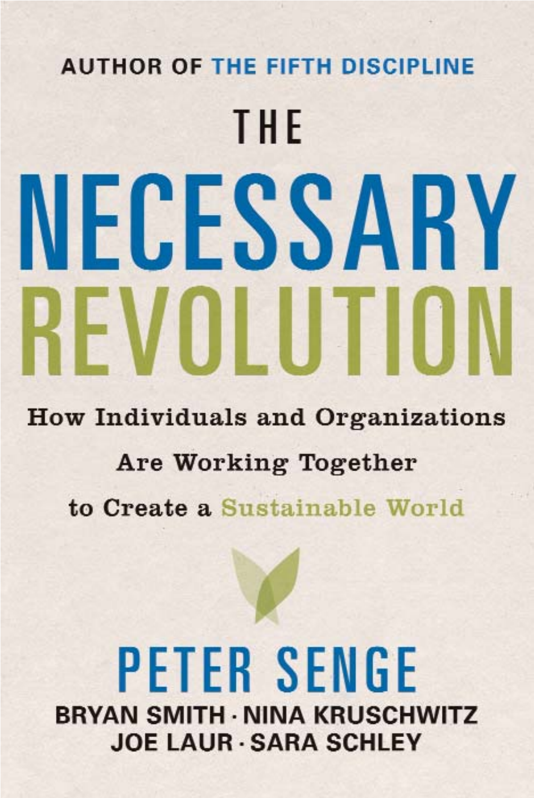
→ doing reports and getting everybody concerned about these issues; but I felt we didn't understand very much how change can occur, and that's how I got drawn into business. It seemed to me that was a great learning space, a learning laboratory for understanding how the hell you could actually start to bring about systemic change; and I basically had to wait about 25 years until enough people in the business community started to get passionate about these issues. That was a long wait.

You followed your passions?
Well, for me, there's always been one issue. Probably the way I talked about it when I was 19 years old was a little different from the way I would talk about it today; but I can literally remember conversations with my mom in which, to the best of my memory, I said it seems to be me there's just one problem in the world. We've developed this incredible interdependent Web and we can't see it, we're blind to it. That was just the time, in the mid 1960s, when all of a sudden environmental consciousness was starting to develop, and you had *Silent Spring* and *The Population Bomb* and *Limits to Growth*, all, I think, different ways of saying, how are we going to live together? A conference in Sweden came up with a wonderful double entendre as a title for their conference, "How on earth will we live together?" I think that really has always been my question, and the *we* has really been everybody.

Do you feel optimistic?
I purposely spend very little time thinking about optimism or pessimism or feelings. I feel the way I feel. I would say we're in for a tough couple of decades, maybe longer if we don't get our act together. It's hard for me to imagine the depth and breadth of speed of change occurring in the time we've got. That's, of course, the way we use the climate change dimension – as a time clock, even more than we wrote in the book; because this whole consensus in the climate science community has been shifting so rapidly. There is extraordinary inertia in the system. In the last two years, the estimates for 2005–2006 actual global emissions exceeded all of the forecasts both years, so we're still not even beginning to turn the ship. The conviction that humans are stupid, selfish, will never get their act together, disaster lurks at every corner – well, that doesn't produce a lot of imagination or commitment; it doesn't produce the energy and spirit and kind of work we need. Obviously that's one of the things we're really aiming for in this book, to be as candid and accurate as possible in reflecting the reality of our circumstances. Dee Hock, founding CEO of Visa, said it beautifully: it's far too late and times are far too desperate for pessimism.

Does your meditation inform that kind of view?
I'm sure. One thing that meditation helps is how to process all kinds of intense emotions. I think it probably helps a lot, because it's useful to be able to reliably return to a state of real quiet and peacefulness, experientially, even though you look around you and see quite the opposite.

Who influences your thinking?
First off, I almost never read management books. It's kind of like the newspaper, you've got to glance at it now and then, but management



books just to me don't go deep enough. I've always read a lot of stuff. Since I was very young I've been interested in all kinds of spiritual traditions, so I do read a lot of different traditions. I'm also interested in new articulations of what might be called perennial wisdom – people creating new articulations for a new time and place with new ways of hearing and listening. I'm fascinated by the thing that Oprah has been doing with Eckhart Tolle. I think it's fascinating that a bunch of Americans are on the Internet going through this very clear, from what I've read, spiritual cultivation practice. That to me is very hopeful, because it shows that people are oriented towards their own personal development in a sense of hey, when all is said and done, it's our insatiable desire for material

Start a network of effective organizers and get the involvement of the key companies in the region, and some of the governments, and then things can really start to happen.

things that's driving a lot of problems. We've got to learn what "enough" means in the material domain.

I have a teacher in China who will send me off studying very particular things. He's a very interesting character, Confucianist, Taoist, Buddhist, very well known in China, about 90 years old. He said, one of the times a bunch of us were together, "It's time now to start studying some of the oldest Buddhist texts, the ones that were lost first," because one of the jokes among Buddhists is that the Bible is a very small book. The Buddha taught for 50 years, almost all after his enlightenment, so there's a lot of stuff there. The Buddhist index is 300 pages long. There is a book called the *Surangama Sutra* (very few people in the West have even heard of this book); and in there, the Buddha says this will be one of the first teachings that's lost. So, that's the kind of stuff I study. I started reading that book three years ago and made no sense of it at all. It was hopeless; in fact, each little section is typical of a lot of the Buddhist Sutras.

What are you going to work on next? Do you plan ahead?

Well, hopefully not any books for a while. This has been a very unusual time, because for about five or six years I've been spending much more time than I would prefer in writing books, and my head is still spinning. My real interest is always the projects, so I'm looking at the food lab and trying to get some good stuff going in the energy area, and I imagine some new things will start to come together. I also have a deep interest in traditional Chinese culture.

The biggest single frustration about *The Necessary Revolution* is all the great stuff that's not in there. About a month ago, I went out to participate in a meeting of Satyam Corporation. I'd never even heard of these guys – an Indian outsourcing organization, 50,000 employees, about $3 billion in foreign sales, 22 years old – and they are working to create the first 911 integrated emergency service throughout India. One of their corporate goals is to save a million lives a year.

I think the innovation that's occurring already in some of these Indian companies is fascinating. Doing this is part of their business; they're not making any money in it. But they say, we have four stakeholders, and community is one of them, and we make all of our decisions based on all four stakeholders. Very matter of fact, very low key, very Indian, very soft-spoken. ✣

Resources

www.solonline.org/aboutsol/who/Senge/

Books by or with Peter Senge

The Fifth Discipline: The Art and Practice of the Learning Organization, Transworld, 1990.

The Dance of Change: The Challenges of Sustaining Momentum in Learning Organizations, Nicholas Brealey, 1999.

Presence: Exploring Profound Change in People, Organizations and Society, Currency, 2005.

The Necessary Revolution: How Individuals and Organizations Are Working Together to Create a Sustainable World, Nicholas Brealey, 2008.

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Special report

THE NEW change equation

Many leaders who want their companies to change look for a quick and easy formula. **Michael Jarrett** believes such an approach is flawed from the start. Far better, he argues, to understand how change really happens.

It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is the most adaptable to change. – Charles Darwin

Change means different things to different people. To the CEO, it may mean increasing profits, cutting costs, or saving the business; to you or me, it may mean no more or no less than keeping or losing our job. That is why change is so profoundly unsettling. And the less control we have over the change, the more unsettling it tends to be.

Of course, not every organizational change is job-threatening. A dictionary definition of change is "the act or an instance of making or becoming different; an alteration or modification". This suggests, entirely accurately, that change comes in many shapes and sizes. Indeed, the word *change* is used to cover a multitude of situations: everything from the mundane – putting on a pair of clean socks – to the profound physiological alterations that occur during midlife. Organizational change, too, comes in different degrees and guises. I distinguish between four main types:

Temporary change For a time, it looks as if things are going to change, but the organization reverts to type and nothing happens. Any initiative quickly peters out, often after creating false hope. The organization is simply not ready for change.

How often have you seen the Big Bang approach to change, in which considerable time and effort is placed on announcing the forthcoming strategic agenda and how everyone will gain from the benefits – yet life remains the same? In such instances, the illusion of change substitutes for any reality. More damp squid than big bang. Employees feel disappointed and let down. It's something they have heard before. Soon lethargy and mistrust seep in and turn to chronic cynicism. The situation becomes toxic; only radical surgery can fix it.

Incremental or process change This sort of change aims to provide some small improvements. It is easy and quick to implement, and you get quick returns. The risk of failure is low, but so are returns in terms of benefits. Incremental change means operating within strict controls to gain efficiencies from your company's system of organization. Fine-tuning a winning formula usually characterizes this type of change.

You know the sort of thing. In one study, for example, a call centre in Sunderland increased its productivity by 20 per cent by introducing simple measures that included staff training and the implementation of new software. Similar results of incremental changes and training showed increased sales. Overall, in this separate study the company produced an extra $110.25 per month per sales agent, for a 500-seat call centre. Over a year, that translated to an estimated $661,500 in sales. This sort of incremental change is useful – worth having, certainly – but unlikely to transform the organization's competitive position.

Organizational restructuring Here, the change focuses on fundamental systems, structures and relationships within the business. The introduction of a new sales force to increase market penetration is a typical example. These changes can take up to a year to embed depending on the scale. The risks increase, but so do the rewards.

Supermarkets that add an online distribution channel are examples of this form of change. The UK retail chain Tesco was among the first to move to an Internet strategy on a large scale in the retail grocery market. In the initial phase, it meant restructuring the company's distribution channels to get the best returns from its existing assets. The company tended to pick groceries from existing stores that acted as local hubs. It had to implement new structures and systems to meet the needs of its new online customers.

Transformational and cultural change Programmes of this nature aim to redefine the organization's strategic direction, cultural assumptions and identity. Examples include IBM moving from hardware to software, Polaroid moving from film to digital photography, and BT moving from telecoms to becoming an Internet provider. Larger-scale change initiatives such as these yield greater returns, but the risks – and stakes – are also much higher.

Nissan was a car company in deep trouble at the beginning of the 2000s. It had $17 billion of debt and looked like another casualty on the rocks of change. Carlos Ghosn took the company reins and completely transformed it. Within four years, Nissan was one of the world's most profitable automakers. The cultural and strategic changes Ghosn implemented marked a transformational change. He took a deep cut at the heart of the organization's DNA and rewired it to meet the challenges of the fiercely competitive and cost-conscious auto industry.

Readiness for change

In my experience, one of the things that goes wrong with change programmes (again and again!) is that organizations and leaders fail to reconcile or even understand their internal capabilities and the complexity of their external worlds. They either respond to a change in the external environment without thinking of the internal repercussions or attempt to force through changes that make sense internally but no longer fit the context.

It doesn't have to be this way.

Managers who achieve successful change do something different. They may not consciously know they are doing it, but they are doing it all the same. They are selecting an appropriate change strategy, one that matches their internal capabilities and their external challenges. My research shows that the best predictor of the success or failure of organizational change is *readiness for change.*

What do I mean by this term? Readiness for change applies at the philosophical level – being open to and prepared to embrace change; but it also applies at the practical level. Readiness applies to those organizations that have developed a set of core dynamic and internal capabilities that allow them to adapt when faced by external demands. It is the precursor to those organizations that gain strategic agility. Basically, successful change is a function of how well an organization's internal capabilities – its management capacity, culture, processes, resources and people – match the requirements of its external environment, the marketplace.

The secret to the management of change is not only what happens on the outside – it is how we respond on the inside: as leaders and as organizations. This is the essential lesson of managing change. To make change stick, we must have organizational readiness. In Louis Pasteur's words: "Chance favours the prepared mind." It is also true that organizations with high levels of readiness favour change.

> Managers who achieve successful change do something different. They may not consciously know they are doing it, but they are doing it all the same.

So if you want to succeed at introducing change, you need to understand that different situations demand different strategies of change. Simply put, you need to appreciate the change equation: *internal capabilities + external environment + strategic leadership = a change strategy.*

Look inside

How does a leader successfully implement far-reaching changes across an organization in the face of external dramatic demands? This was a question I asked Richard Ward, who served as CEO of the International Petroleum Exchange (IPE). Richard started his career as a scientist and an academic. His razor-sharp thinking meant he quickly grasped the complexities and rhythm of the business world and was able to spot trends. So, was he fully prepared for what happened when he announced, in spring 2005, that the IPE oil exchange would be changing from "open outcry" on the floor of the exchange to electronic trading using terminals?

The change – a seemingly inevitable update given technological advances and increasingly global finance – met with unexpectedly →

→ violent opposition. At one point, Richard found himself seized by the throat and pinned to the wall of the men's toilet. At the other end of the burly hands was one of the traders from the floor of the exchange. He was six feet tall and all he could see was the end of an era.

The trader had worked at the exchange boy and man. He was good at his job and made outstanding money. It was his life. The "open outcry" on the floor represented years of tradition and ritual – men in strangely coloured coats, shouting and accepting bids in a cacophony of yells and excitement. But, to say the least, he was not prepared for change. Nor was the organization he was part of.

The context was a true reflection of Adam Smith's "invisible hand" of capitalism: information was widely known by all; exchange was at a fair price; there were lots of buyers and sellers. It was a perfect market driven by the animal spirits of supply and demand. Now someone was going to change it all and replace it with electronic placing. Why replace a perfect system for one that was, granted, even more transparent, quicker and easier to do business, and that allowed instant access to aggregate data? What was Ward thinking?

Indeed, many of the traders on the floor rejected the Big Brother changes and regarded the switch to electronic placing as heresy. They saw no advantages in the new system. It would take the heart and soul out of the process, they argued. It meant the end of an era. They announced their intention to fight the change to the bitter end, and they did.

Let's be clear. The idea of moving to electronic placing was a good strategic decision. The trends and moves at other major markets, such as the New York Stock Exchange, meant that IPE needed to respond to the times. So, it was a sensible strategy, but waiting in the wings was the potential for it unravelling into chaos and despair.

Given the patent need for change and the internal opposition, how did Richard Ward and his team make it work? Clearly, they had a long haul. Along the way, he successfully helped to navigate two strands to the change strategy. The first was the external environment. Constant vigilance and extensive networks provided him and his small change team with the information and resources they needed to structure the right deal within the current climate of hostile competition, a drive for cost saving, and the onslaught of technology across the world's major bourses. Operating and negotiating with a network of agents, brokers and stakeholders maintained good relationships in the market.

Managing the internal capability was also part of his secret. The need for change was properly communicated and understood, thus addressing initial major concerns. They closed the trading floor, provided more access points through computer terminals to increase the transparency and speed of trading, reduced errors and provided a secure base for the market. He involved internal stakeholders and eventually managed to find the critical mass to make the changes work.

The changes took place in a hostile environment, but the top team managed the external and internal worlds of the organization – and produced a successful outcome. The secret to their success: devising a change strategy that aligned and developed their internal capability with the pressures of the external demands.

Ward is not alone. He was smart enough to react and correct things, but his experience emphasizes the point that most strategies fail not because of strategic analysis but because of poor implementation. Preparing an organization *internally* is absolutely essential to the change equation.

Look outside

There are at least five external factors that also affect a change strategy. These may be outside of your direct control, but you *can* influence them. Essentially, these external dependencies change the rules of the game and the way companies create value. Often, when external factors threaten, the challenge is to change or die. There are a number of different types of external challenge. They include the following:

> Often, when external factors threaten, the challenge is to change or die.

Failure to keep up with changes in disruptive technology For example, Polaroid's failure to respond to the threat of digital photography led directly to the company's decline. Failing to keep pace with changes in your industry can take you by surprise and lead to competitive advantage suddenly disappearing. Look at how IBM lost its advantage in its traditional hardware market. Even so, it is a positive role model for what can be achieved through change – witness its reinvention over the last decade from hardware to consulting.

Reliance or dependency on other organizations for crucial resources or assets Think of outsourcing: you can find yourself locked into particular situations and expectations in which who owns what and who is responsible may be impossible to establish. This happens more regularly than you might think. A rail company with which I worked had previous and long-standing investments that meant that the infrastructure was slow to respond to new demands in transport. The company couldn't do what it wanted.

Special report

New political and legislative demands Deregulation in the US airline industry led to established companies such as TWA failing to survive. The Sarbanes-Oxley Act of 2002 increased industry concentration among the major US accounting firms. Privatization in some countries is a shock to the system for public-sector organizations.

Underestimating competition from unexpected places Many petrol stations now offer food, for example, and compete directly with small grocery shops. Microsoft developed the Xbox in part to stop Sony coming into its space through the back door of the online Sony PlayStation. Microsoft (with some $60 billion in revenue) did the same in bidding for Yahoo against Google, a company that is considerably smaller (around $20 billion) but one that continues to be perceived as a strategic threat. Some of the biggest threats to financial-service organizations in the United Kingdom come from large supermarkets like ASDA, Tesco and Marks & Spencer. These high-street brands can offer retail lending to consumers much easier than traditional channels can.

Environmental volatility, market and economic trends and other contingencies The tumult in global stock markets starting last October made it clear just how fast things could change for companies overnight. Yet, head-spinning change is always a risk. I recall undertaking a large consulting assignment for a Malaysian oil company at the end of 1995. In just three weeks, the Malaysian ringgit spiralled downward, losing nearly 25 per cent of its value. When there's a mega-shift in the marketplace, individual firms have little or no control over their fortunes; and it is industry or economic shock waves that finally determine those parts of the market that survive and those that die.

These are just five of the innumerable external factors that can directly influence a change strategy. While no company or its leaders can alter, for example, the devaluation of a national currency, what's critical is for leaders to be aware of – *and be ready to compensate for* – such major external events. A ship that leaves port with no plan or provisions for a major storm is a doomed vessel.

Look for leadership

A lack of strategic goals for change is also a major point of concern. Without the big strategic planks and the road map that follows, change is impossible to achieve. The strategic goal sets the compass for change and provides a beacon for the organization to steer by. All of this comes down to the presence or absence of one factor – leadership.

The insurance industry is populated by companies that stand or fall by how well they can manage change. Insurance companies are always asking a standard question: *what is the best way to manage large and unpredictable risks?* This was precisely the issue that focused the mind and energy of specialists and managers at Swiss Reinsurance, one of the world's largest reinsurance companies. The company actually rephrased the standard question into one that was directly relevant to their own success: how can unusual risks be underwritten by placing them back on the open financial markets?

Hurricanes in Florida or floods in the Indian subcontinent are infrequent but major events. Techniques in alternative risk transfers marked a small but new territory, and the group had restructured to make its mark there. The company set up the Financial Services Business Group (FSBG) in 2001, and an integration programme swiftly followed to capture the benefits as quickly as possible. Most commentators agreed there was scope for these types of products but mobilizing the market would not be easy. Every minute mattered.

FSBG set up a small change team to make the transition as smooth as possible. Jacques Aigrain, head of the group, did all the right things to start with: he set out the strategy with his top team and created an organizational structure to draw on the advantages of the group's core competencies in reinsurance and investment banking. The agenda for change was clear, and everyone started to go through the usual step models of change: creating a sense of urgency, building a guiding coalition, and so on. But it soon became apparent that, in this case, small steps would not allow the company to make the required leap. Bold leadership was required.

Aigrain, working with the company's CEO, John Coomber, did many things. Among those that made a difference, the company joined forces with the Centre for Health and the Global Environment of Harvard Medical School and the United Nations Development Programme and actually hosted a conference that brought *all* major players in the insurance world together. As summarized by referenceforbusiness.com: "World leaders in the fields of business, government, and science met in late 2003 and in the spring of 2004 to discuss, define, and strategize. Among those present were representatives of Swiss Re, the Allianz Group, AON, Goldman Sachs, JP Morgan Chase, Johnson & Johnson, BP, and the Association of British Insurers.… As a result of the discussions the participants stated that they would work to increase their knowledge of these new risks to identify proactive responses. They agreed to work individually and in concert."

And, to their credit, Swiss Re did all this while also becoming a better member of society. It committed itself to a 10-year programme to become "greenhouse neutral" by combining emission reduction measures aligned with investment in the World Bank Community Development Fund. One news source declared that Swiss Re thus established itself as the world's largest financial services company to set such a goal. But such leadership was not easy. It never is.

On the very page of the Swiss Re website announcing that Aigrain would succeed Coomber as CEO, there is a telltale statement about how the company views the need for *constant* change as the only way to cope →

→ with numerous factors affecting any insurance business. Swiss Re provides an 18-bullet-point list of items the company needs to watch carefully (see right). The list is worth including here, as it helps to make a key point.

I cite the bullet-point list to demonstrate that wise leaders plan appropriately for both *internal* and *external* factors that can influence a company's destiny. Or, as Swiss Re says at the bottom of the webpage: "These factors are not exhaustive. We operate in a continually changing environment and new risks emerge continually." Thus, perhaps the first and most important thing that leaders must attune themselves to is to disavow, once and for all, the myth that change is simple to understand and can be managed by logical, incremental steps.

Factors to watch

- Cyclicality of the reinsurance industry
- Changes in general economic conditions, particularly in our core markets
- Uncertainties in estimating reserves
- The performance of financial markets
- Expected changes in our investment results as a result of the changed composition of our investment assets or changes in our investment policy
- The frequency, severity and development of insured claim events
- Acts of terrorism and acts of war
- Mortality and morbidity experience
- Policy renewal and lapse rates
- Changes in rating agency policies or practices
- The lowering or withdrawal of one or more of the financial strength or credit ratings of one or more of our subsidiaries
- Changes in levels of interest rates
- Political risks in the countries in which we operate or in which we insure risks
- Extraordinary events affecting our clients, such as bankruptcies and liquidations
- Risks associated with implementing our business strategies
- Changes in currency exchange rates
- Changes in laws and regulations, including changes in accounting standards and taxation requirements, and
- Changes in competitive pressures

Source: www.swissre.com

Myth of change

The myth of change is that it can be done in steps. This assumes it is a planned, controlled process. My experience is that major change is interactive, complex and nonlinear, undermining all traditional assumptions of change management. Emotions *will* run high, as will political machinations. Change is emergent; it cannot be controlled.

Forget the books and articles that espouse that change is easily managed. This view is based on fundamental assumptions about the world: stability, certainty, homogeneity, and centralized sources of power and authority. We now live in a fast-changing, post-modernist world; complexity, uncertainty and difference are parts of the norm. Sources of power as well as expectations of employees and consumers have shifted; today, emergent, interactive processes yield results. Wise leaders avoid simple-step models.

Today the environmental landscape can shift quickly, unexpectedly. Models of change that use recipes provide useful frameworks but are insufficient. They can be static, unresponsive to outside influences and oversimplified. They can miss many subtleties and undercurrents; in some cases, following steps can do more harm than good. Thus, change models need to be contingent upon a firm understanding of the external environment and a grasp of your internal choices. Change is a function of external dynamics and internal capabilities; and, significantly, success or failure is often determined by the interaction between the two. Strategic leadership must be present or the interaction between external events and internal capabilities will never synchronize into success. There is, indeed, no easy formula for managing change. This, however, is the new change equation.

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The virtues of transformational leaders

They are a rare breed: transformative leaders earn that heady title by transforming not just companies, but industries. **Charles Spinosa, Billy Glennon** and **Luis Sota** believe there are four virtues that such leaders manifest.

Great leaders grow extraordinary companies in ways that make their whole industries more highly valued. Consider John D. Rockefeller using vertical integration to stabilize the oil industry, including high-risk exploration. Consider J.P. Morgan transforming banking to bring stability to each of its clients and to markets. Consider George Eastman who created popular photography. Not all industry transformations are so massive. But consider the kind of growth shareholders seek today: only transformation of some size can achieve it.

We have found four core virtues critical to the success of industry-transforming leaders:

- Taking a stand to accomplish the impossible
- Seeing personal transformation in others
- Setting the corporate style, and
- Listening for difference

We have worked closely with three leaders who possessed these virtues. To speak intimately about the difficulties involved in adopting these values, we have disguised the identities of these three leaders. All started their industry transformations in the 1990s; two are still leading these transformations today. One is a telecommunications entrepreneur who has grown two companies each worth well over $1 billion, both facing rivals with dominant market share, good technology and competitive cost structures. Having displaced such Fortune 500 competitors as Verizon, his second company now dominates its entire region. Our second leader grew his credit card-processing company from nothing to take on such established rivals as American Express, Barclaycard, Capital One, Citigroup, GE Money, First Data, MasterCard and Visa. The third leader transformed a small, regional Latin American manufacturing company into a global titan worth multiple billions.

In each case, no one thought these leaders could grow their companies and transform their industries as they did. Thus, they provided the centre for our research; but we have also drawn on research of recent, successful leaders in over 100 other companies. The most transformative leaders in the very best corporate examples demonstrated four key virtues.

Taking a stand to accomplish the impossible

A leader today declares a new way of looking at things, and his or her followers have to extend that to every important circumstance the enterprise faces. Since the change implied in the new way of looking at things goes against common wisdom, most will say that his vision is impossible. Yet, the leader has to present the change as an implacable necessity. Without that urgency, followers fall back into the usual pattern of following circumstances, not leading them.

For example, one leader we studied, who faced intense scepticism, declared that he would find financially transparent structures to enable his Latin American manufacturing company to use acquisitions to become one of the top three in the world. No one thought that a company with more than half of its profits in an unstable Latin American currency could raise cash to compete for acquisitions with well-capitalized American and European companies.

The mobile telecommunications entrepreneur we worked with declared that he would use flexible, fast, customer-sensitive management techniques to threaten control of markets owned by single competitors. Everyone around him believed that success in mobile telecommunications was tied to locking customers into long contracts.

Then there was the would-be card-processing leader who declared he would grow his start-up to rank among the top three US processors in just five years by treating customers more like friends. Most scoffed at the very idea; the accepted wisdom was that big business was, first and foremost, about scale and price – friendship was far down the list of success factors, if on the list at all!

Making a declaration of a bold new stand in the industry creates, in essence, a new frame for anticipating and evaluating the leader's actions. Thus, leaders must travel through three key phases in exercising the virtue of taking a stand, each phase harder than its predecessor.

Find what's wrong The leader comes to this by asking: *What is our company doing wrong? What are our competitors doing wrong? What does our industry do wrong for customers or for shareholders?* Then, of all these things that go wrong, which *always* go wrong? Our Latin American leader said to himself, "Latin American companies are always unable to compete in acquisitions because they pay a premium to borrow." Our credit card leader was told over and over that card processing could never be a customer service-oriented friendly business. Similarly, for our leader in mobile telecommunications, most said that it was a given that customer churn would always be every company's weak point and only binding, long-term contracts could help. A problem that will "always exist" or "never go away" is an ideal impossibility to overcome. Transformational leaders find this as soon as possible.

Find the means The second phase involves identifying the means to achieve the impossible. While there is no simple process for engineering an industry transformation, certain general elements come out of taking a stand. The leader asks what convention (or conventions) he or she has to change in order to simulate a company or an industry that already has a better business model. In short, finding the means often starts with asking profoundly unusual questions, ones that no one else in the industry is asking. For example, asking how a credit card-processing company could simulate the friendliness of a Ritz Carlton caused our leader to develop a series of small service enhancements and deliver each to a micro-segment of merchants segmented by their service preference. Our leader broke with the thinking that a high level of service only meant exclusively special treatment of wealthier customers. Last, to do all this while maintaining profitability, he hired iconoclastic IT developers who worked with him to break the rules and manage these new micro-segments in innovative ways.

Elevate the stand The third phase of taking a stand involves personally becoming the stand, modelling behaviours that speak to a new and better way. Even those closest to the leader can easily start resisting the departure from the comfortable status quo. They are charmed by the new vision the leader espouses, but they do not see it as the new centre of the industry. Such resistance can turn to a form of mutiny when followers' doubts cause them to become entrenched in what they have always done.

For our credit card leader, the crisis came when he was about to deploy a bold, new service offering to a segment of small merchants. His partner of many years balked and secretly went to the venture capitalists and asked that they remove the leader from power. When this was discovered, our leader was forced to mount a fierce counterattack – even involving the testimony of a psychiatrist – that he won. Nonetheless, the victory threw him into an emotional paradox. He led a company devoted to competing by creating a friendly business, but he could no longer feel a personal joy in that good because he had been forced to destroy a key friendship to do it. Most transformative leaders we've met talk about a moment similar to what happened in that case, about a time when they identified themselves with the business vision even if it meant revoking personal loyalties and ideals that made the work profoundly personally fulfilling.

Seeing personal transformation in others

F. Scott Fitzgerald said that there were no second acts in American lives. With this keen observation, Fitzgerald captures how most senior managers currently see their teams. Senior managers see life stages: from formulating desires and ambitions, assembling talented people with critical skills, assigning roles and responsibilities, tracking progress in delivering what is due and measuring what has been done. Senior managers focus mainly on the work their teams are going to do or have already done. But what about all those people required to perform the work? Most senior managers do not see team members as struggling to achieve their own particular definition of a good life.

By contrast, transformational leaders connect the larger corporate vision to those of the individuals needed to make the grand vision happen. In particular, transformational leaders gain the loyalty and trust of their senior team – particularly as they pursue industry transformations together – by recognizing and celebrating each and every personal transformation.

The Latin American manufacturing leader likes to tell the story of his energy director who started out as a college professor, became a →

→ research manager, then an energy trader and finally an energy czar who served not only the company but also a whole geographical region. "What's next?" was the question the energy director asked as he achieved each of his personal career transformations. Our transformational leader was smart enough to answer the question

A leader today declares a new way of looking at things, and his or her followers have to extend that to every important circumstance the enterprise faces.

by showing how tackling a higher level of professional challenge would help not only the energy director but his company and industry as well. Likewise, the leader who brought friendliness to credit card processing regularly called his senior team members late in the evening to discuss the corporate strategy and how achieving it would also change them for the better.

Transformative leaders hire people whose personal challenges line up well with the impossible goal the leaders are trying to achieve. Our Latin American manufacturing leader promoted other managers who were out to prove that they could beat first-world managers. Our telecommunications leader expressly did not hire proven deal makers as much as people who admired his deal-making skills and wanted change in their careers. Our credit card leader hired a team of brilliant IT misfits who banded together as friends and then showed they could provide cool, user-friendly services.

To cultivate the virtue of seeing others as engaging in personal transformation, leaders ask a handful of basic questions of their colleagues and members of their team. *What previous transformations have each undergone? Which business challenge most made them want to get out of bed in the morning? Thinking back, which particular challenge was the most meaningful? How can their past successes play a role in the industry change now being envisioned?*

Setting the corporate style

Transformative leaders follow Winston Churchill's dictum that "We shape our buildings; thereafter, they shape us." That is, they set a corporate style that aligns totally with the new stand on which the company needs to operate. They create organizational norms and rules that underscore the need to think (and be!) different from the status quo. Transformational leaders exercise power by getting people to see as real and urgent *exactly* what the leader sees as real and urgent. As Tamara Erickson and Lynda Gratton noted in the March 2007 issue of *Harvard Business Review,* the transformative leader carefully designs the roles, key meetings and other practices, sometimes signature practices, in the organization in order that they fit with the leader's own style of acting.

Tables of an organization's roles are usually the easiest places to begin to embed the leader's style of thinking and acting. Southwest Airlines has peppered its senior ranks with people who specialize in caring for other people and whose titles say it. Thus, Southwest employees assume that caring for each other and the customers is the basic part of any business. But signature practices also embed a leader's way of acting. Umpqua Bank convenes the whole company every morning for a motivational moment in which managers get their teams excited for the day. Then, once a year, the entire Umpqua staff assembles for a meeting like the Academy Awards during which the legendary stories of its front-line staff are celebrated. Staff members simply think it is natural to project excitement and look for an unusual way to help a customer. Howard Schultz has everyone at Starbucks serve some time as a barrista. Can anyone doubt that the barrista style matters? Jeff Bezos requires that everyone at Amazon serve one day a year on the customer service phones. Creating roles, establishing meetings and embedding practices set a style that ultimately *becomes* the organizational reality.

Within manufacturing in which engineering disciplines usually reign supreme, our Latin American leader created his transformational organization design intuitively. While most organizations have functional and regional leaders at the top, the leader's top four reports represented the aspects of the corporate style that he embodied and used to drive his company: deal making, cost optimizing, speed and cutting-edge technology. All functional areas reported to a paragon of one of these aspects of style.

For instance, since finances were about acquisitions, the CFO, heads of investor relations, corporate communications and marketing reported to his top deal maker. Likewise, most of his regions reported to his chief cost optimizer, who would regularly run corporate-wide, cross-departmental projects to invent new ways to cut costs. Manufacturing reported to the third senior officer, who was famous for running the fastest post-merger integrations in the industry. The technology chief soon became responsible for the areas that the transformative leader wanted to become more high tech: logistics, energy and HR. This setting of corporate style became such a matter of fact that direct reports of the four leaders would say, "The real

Special report

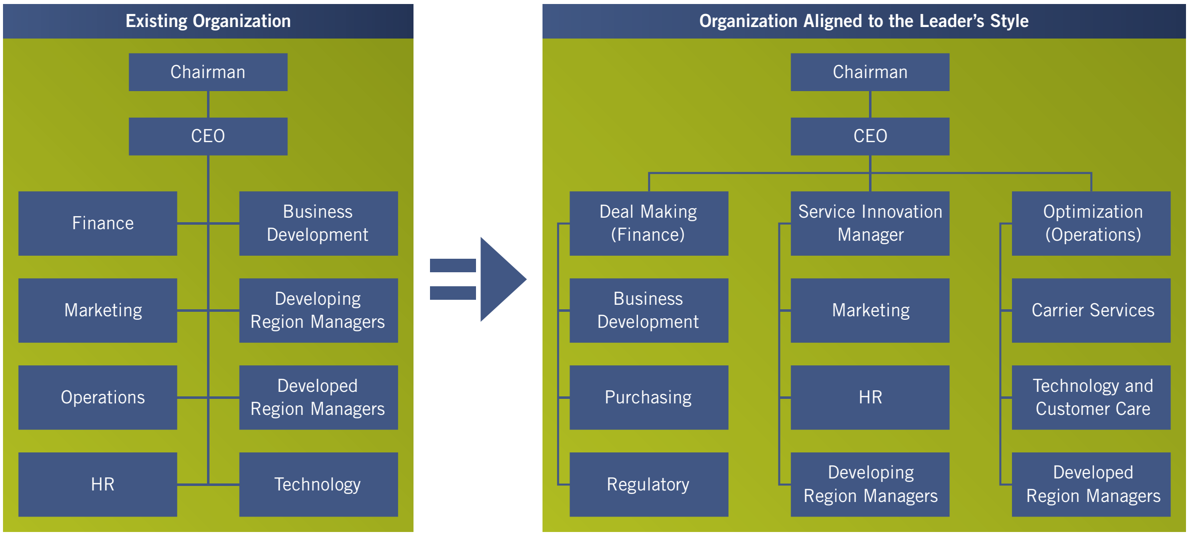

Figure 1: Transforming an organization to fit a leader's style

business of our company is cost optimizing." Or they might alternatively assert, "The real business of our company is making deals."

Perhaps the real test of whether a transformative leader has created a new corporate style is to attune oneself to what people in the organization are talking about on a regular basis. If a leader finds herself angry over excess costs, lack of product innovation or poor service, then cost optimizing, innovation and service should soon become the topics most evident in recurrent conversations of people throughout the organization. If a leader has truly set the style for the organization, he's also set the agenda for organizational dialogue and debate.

By contrast, transformational leaders connect the larger corporate vision to those of the individuals needed to make the grand vision happen.

Listening for difference

Tim Waygood is an expert in motivating people, and he has posted a classic bit of wisdom on his weblog (timwaygood.blogspot.com): "Effective listening is central to success in business, as it is key to establishing and maintaining good relationships with clients and colleagues."

Looking at the study of listening practices in business, one finds three kinds of listening most often cited. *Confirmation listening* occurs when a manager listens to gather evidence for his or her own views. Then comes *active listening.* Here, the manager repeats the speaker's words and checks his or her understanding of what the speaker intended to say. Such listening improves understanding where there is candour and trust. *Empathetic listening* focuses on the background mood, concerns and functional orientation of the context in which words are spoken. The listener moves beyond the words to the deeper significance of the words, such as when a leader says to his marketing chief, "Your sales representatives are complaining about the price, but I sense some greater disappointment. Are you and they disappointed by the product's design?"

Transformational leaders listen for difference. In their listening, they penetrate beyond the actual words and background concerns to identify the speaker's stand in life and how it fits or conflicts with the leader's own stand. Such leaders vigilantly listen for what they do not want to hear.

When a customer complains that she has to spend too much time following up on a mortgage application, is the customer taking a stand in her life for simple convenience, speed or exploiting opportunities? The transformative leader listens for the difference. That means insistently wondering what stand would generate the speaker's comments and probing for hints to understand the significance of the communication.

A classic example of listening for difference is to be found with Francisco Garza, president of Cemex's North American Region, who exhibited the virtue in the face of a special problem. In the late 1990s, he held a fair to get to know Mexico's growing population of mostly poor, do-it-yourself homebuilders who were on-and-off-again Cemex customers.

At the fair, Garza saw a commotion in the free-vaccination line. The do-it-yourselfers did not want vaccinations, but they did want →

→ the Cemex baseball caps that came with the vaccinations. Francisco gathered a number of the do-it-yourselfers and thoughtfully explained the diseases the vaccinations prevented, the suffering caused by the diseases and the slight inconvenience of waiting. They listened respectfully, but at the end, said they simply wanted the baseball caps. Nothing he could say would change their minds.

He soon understood that these customers stood for a way of life different from his. Knowing this was enough for Francisco to think in new, different ways – even to withdraw a product from the marketplace. His design teams had noticed the do-it-yourself builders struggling with large bags of cement and had created small bags. None sold.

The design managers thought that common sense would drive the do-it-yourselfers to the bags. Francisco realized that what is common sense for one is not necessarily common sense for everyone. So, he cut production of the smaller bags until he and his managers understood their customers better. He started by tasking his team to find out what life was like for the do-it-yourselfers: what mattered and what did not – and why? His observing and interviewing teams worked with one guideline: understand how the do-it-yourselfers are different from us and why they care about that difference.

Garza learned that fitting into the community mattered very highly to the do-it-yourselfers. When a person was going to build, he announced it with a big – not a puny – bag of cement in front of the site. No do-it-yourselfer could easily articulate this sense of group solidarity, but they could say that it would be embarrassing to build without first announcing it with a bag of cement. This was enough to withdraw small bags of cement from the Cemex product line. In time, however, the Cemex managers learned much more.

For example, they learned that neighbours felt obligated to pay their debts to each other but not to large companies like Cemex. They found that neighbours formed money-pooling groups in which each member would get the whole pot in turn. Out of this listening for difference came a group-savings programme that fit community standards, enabled the extension of credit, drove higher sales and profits for Cemex and won the coveted 2006 ICC World Business Award. Listening for difference enabled Garza and his team to pursue such counterintuitive lines of conversation and, in turn, new business practices.

Listening for difference goes against the grain of assumed knowledge. It's not comfortable, but it can be transformative. How does one practice such listening? First, start with the assumption that people see things differently from you. Second, listen to identify unusual statements that do not make sense to you (as in not wanting to wait for a vaccination). Third, with genuine respect, ask about any unusual "hard to understand" statements to get added details: "What else is like this?" or "How did you come to think this?" Fourth, synthesize a hypothetical stand that makes sense of what they are saying; see how it fits with other things you've heard. Keep in mind that your goal is to find a new reality in which your business can grow beyond its current state and start serving those you're listening to in dramatically new ways.

Virtues personified

Taking a stand for achieving the impossible, seeing personal transformation in others, setting your corporate style and listening for difference demand more of leaders than today's common list of leadership virtues. In our conversations with transformational leaders, two stories stand out because they were repeated so often.

Transformative leaders told us how strongly they believe that they need to transform their companies because of the good they will do for their customers and other key stakeholders. They also told us that the quest to transform their companies and industries always involved severe testing of their commitment to their innovative stand and whether they would cave into the existing norms of their organizations.

True transformative leaders commit themselves to the virtues of taking a stand to accomplish the impossible, seeing personal transformations in others, setting the corporate style and listening for difference. They are so committed to these four traits that they become the personification of these virtues.

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A change compendium

A quarter century of change advice and counsel from leading thinkers whose words contain classic wisdom.

Special report

1980: Peter Drucker

After long years of relative calm and predictability, every enterprise – business or non-business public service institution – is likely to be loaded down with yesterday's promises. These include the products or services that no longer contribute; the acquisitions or ventures that looked so enticing when started, but now, five years later, still are only hopes; the intelligent ideas that failed to turn into performance; the products and services the need for which has disappeared with social or economic change; and the products and services that have made themselves obsolete by attaining their objectives. A ship that spends long periods of time at sea needs to be cleansed of its barnacles or their drag will deprive it of speed and manoeuvrability. An enterprise that has sailed in calm waters for a long time similarly needs to cleanse itself of the products, services, ventures that only absorb resources; the products services, ventures that have become "yesterday".

Managing in Turbulent Times, Harper and Row, 1980

1988: John Harvey-Jones

One of the most useful attributes of a manager is his ability to induce change, and in any organization you will always find a number of individuals who are dedicated to changing things and have developed these skills. Skills such as the understanding of the human forces at work, the knowledge of the points of influence to press on, and an understanding of the process of change. To these must be added sensitivity, patience, and a willingness to be the agent of change rather than the principal. Such people form a most valuable network and resource, and it is most important that they should be nurtured and applied where they can be of most effect. They will always be a minority, but a minority who have an enormous catalytic effect on large organizations.

Making It Happen: Reflections on Leadership, Collins, 1988

1991: Charles Handy

Yes, it is absolutely true that change is going to be ever present in all our lives every day. I am told, and I have never tried this out, that a frog is a very agile creature who if you drop it into a pot of boiling water, jumps out immediately, unscathed. But if you put a frog in a saucepan of cold water and slowly heat the water, the frog adapts its body temperature to the changing temperature of the water and gradually goes to sleep. In fact, it goes to sleep at 40 degrees centigrade, unaware that at 100 degrees centigrade it boils alive.

This is a rather horrible story, but I use it as a metaphor to say to people that although we think we are very clever at adapting to the changing world, we don't realize that we have to jump out of that world and take charge of it, not just adapt to it. If we are not careful, we will soon go to sleep unaware that it is changing so dramatically that we could be boiled alive while we sleep. I tell organizations that it is no good just waiting for the world to change and change with it, they must move ahead of those changes and take charge of their own destiny.

An aphorism that I quote from George Bernard Shaw, the Irish playwright, says the reasonable man sees the way the world is going and adapts himself to it. The unreasonable man tries to make the world adapt to him. Therefore all progress belongs to the unreasonable man or woman . . . these days.

Aurora Online with Charles Handy: The Future of Work in a Changing World (Interview with Maxim Jean-Louis), aurora.icaap.org/index.php/aurora/article/view/52/65, 1991

1994: James Collins and Jerry Porras

Far and away the biggest mistake managers make is ignoring the crucial importance of alignment. If you decide to build a visionary company by taking a team off-site to articulate a core ideology and envision progress for the future, then you should come back with at least a half dozen specific, concrete changes to →

→ make in the organization to increase alignment. What can you add to the organization to better preserve the core and stimulate progress? And, just as important, what should you obliterate in your organization that's currently driving you away from the core and/or blocking progress?
Built to Last: Successful Habits of Visionary Companies, HarperBusiness, 1994

1996: C.K. Prahalad
We are in an era of discontinuous change, whether we are talking about telecommunications, health care, financial services, high-volume electronics, retailing or the Internet. As a result, we are no longer talking about fine tuning or improving the organization's efficiency. We are talking about nothing less than reinvention – reinventing the business in fundamental ways.

Reinvention requires a new skill mix and new ways of approaching the business. It may require different business models. It may also require different people. It is not at all clear to me that the same people who are socialized in the standard way of doing business – and who understand a certain recipe for how to manage – can change very quickly and become the inventors of the new business model. As a result, companies have been looking outside their basic industries for people who can thrive in the new environment. …

I have been experimenting with ways to enable people lower down in the organization – people who are closer to new technologies, to customers and to competitors – to create the point of view and dialogue that is needed as a prerequisite for change.
An Interview by Joel Kurtzman with C.K. Prahalad, co-author of Competing for the Future, www.strategy-business.com/press/16635507/17774

1996: James Champy and Nitin Nohria
To unleash initiative throughout the organization, management must be willing to create discordance. The main enemies of constructive change are orthodoxy and dogma. Debate must be encouraged – to a point. And then decisions must be made. The new organization is always moving forward in a state of tension; managers who are uncomfortable with ambiguity will not be able to function. The process of creation is far less predictable than the process of cost-cutting. Volumes have been written on how to pare fat from the corporate body. There is no cookbook on invention.
Fast Forward: The Best Ideas on Managing Business Change, Harvard Business School Press, 1996

2002: Rosabeth Moss Kanter
We have been going through 20 years of striving for new organizational models which move us away from machine-like bureaucracy. There is still sweatshop-type labour in which people have no chance to think, but in the global information age the mental component of every job has become bigger and more important.

New organizational models are now accepted. There is, for example, less hierarchy, more emphasis on alliances and partnerships, and encouragement of innovation. Even so, lots of companies have policies which look and sound right – like flexible working – but which don't actually happen. Managers are often not very good at motivating people or treating them well. There is a lot of lip service.
Business Minds, Financial Times-Prentice Hall, 2002

2004: Ram Charan
These are the four components of how to make money: strategy, operating activities, people, and processes. When you confront reality, you may have to make changes in one of the four, two of the four, three of the four, or all four. To confront reality, you start with the selection of the mix of financial targets. You see how they link to the external environment. If those targets are not being met, you ask the question, "What's going on in here?" A leader has to determine when not to change, when to change, and to what extent to change. Then you determine which of the four internal organizational components have to be changed, and in what sequence, to meet those goals.
Ram Charan: The Thought Leader Interview (with Randall Rothenberg), www.strategy-business.com/press/16635507/04309

2005: Jack Welch (with Suzy Welch)
Ferret out and remove the resisters, even if their performance is satisfactory.

When it comes to making change, this is the hardest practice to implement.... I talked about how hard it is to let anyone go, but it is particularly difficult to fire people who are not actually screwing up and may in fact be doing quite well.

But in any organization ... there is a core of people who absolutely will not accept change, no matter how good your case. Either their personalities just can't take it, or they are so entrenched – emotionally, intellectually, or politically – in the way things are, they cannot see a way to make them better.

These people usually have to go.

Maybe that sounds harsh, but you are doing no one a favour by keeping resisters in your organization. They foster an underground resistance and lower the morale of the people who support change. They waste their own time at a company where they don't share the vision, and they should be encouraged to find one where they do.
Winning, Collins Business, 2005

2006: Judi Neal
I seldom feel any sense of adventure or playfulness in interactions with most of the organizational leaders I meet. Corporate leaders are always asking for the numbers before they take a risk. That is one of their biggest mistakes. When something new is emerging, when a new opportunity presents itself, when you are creating something that has never existed before, there are no numbers to justify taking a risk. … Risk-taking means letting go of your old image of yourself and stepping into new

Special report

territory. … It is a complete act of trust. Trust is the bottom line in risk-taking. It means trusting yourself far more than you ever have before. It means trusting others more than you are comfortable doing.
Edgewalkers: People and Organizations That Take Risks, Build Bridges, and Break New Ground, Praeger, 2006

2006: Vijay Govindarajan

Organizations that operate within a short time frame base their actions on the assumption that their industry is stable and static. But it takes years for large organizations to change directions. If you take this into account, change is rapid and non-linear. For instance, nanotechnology and genetic engineering are revolutionizing the pharmaceutical and semiconductor industries. Globalization is opening doors to emerging economies, such as India and China, and billions of customers with vast unmet needs. Once-distinct industries, such as mass-media entertainment, telephony, and computing, are converging. Rapidly escalating concerns about security and the environment are creating unforeseen markets. And other, more subtle changes are important as well, such as the trend toward more empowered customers, the aging population in the developed world, and the rising middle class in the developing world.

As a result of these forces, companies find their strategies need almost constant reinvention because the old assumptions are no longer valid, or the previous strategy has been imitated and commoditized by competitors, or changes in the industry environment offer unanticipated opportunities. The only way to stay ahead is to innovate.
Strategy as Transformation (Govindarajan's Weblog), www.vijaygovindarajan.com/2006/03/strategy_as_transformation.htm

2007: Gary Hamel

The Internet is making it possible to amplify and aggregate human capabilities in ways never before possible. But most CEOs don't yet understand how dramatically these developments will change the way companies organize, lead, allocate resources, plan, hire, and motivate – in other words, how new technology will change the work of managing.

Throughout history, technological innovation has always preceded organizational and management innovation. Think back to the end of the 17th century, when muskets started to be introduced into European warfare. At the time, battle formations were very deep, very square, with the archers in the middle of the formation shooting over the heads of the archers in front of them.

Eventually, those formations changed in size and scope to better reflect the capabilities of muskets. But it took almost 100 years for this to happen. Why? Because a couple of generations of generals had to die off before military planners were able to use this new weapon in a productive way.

It won't take 100 years this time. Still, if we're going to fully mobilize human minds … we're going to have to turn a lot of our legacy management beliefs on their head. The old model was, "How do you get people to serve the organization's goals?" Today we have to ask, "How do you build organizations that merit the gifts of creativity and passion and initiative?" You cannot command those human capabilities. Imagination and commit-ment are things that people choose to bring to work every day – or not.
In Conversation with Management Guru Gary Hamel (interview with Joanna Barsh), entrepreneur.com.sg/wordpress/?p=138, 2007

2008: John Kotter

The good news is that most organizations have gotten better at managing and guiding change. The bad news is that the world is changing faster than organizations are getting better at it, and the gap may be growing.

The data overwhelming[ly] show that the rate of change is increasing, though not everywhere, not at the same speed, and not linearly. Many organizations just can't keep up with the speed of change.

The notion that change comes in waves and will slow down may be true over a millennium or two. But within the timeframe most of us must deal with, that is, one to 10 or 15 years, the rate of change is just going up and up.

[Organizations and leaders] … need to get better at all of the eight steps that I identified for successful change: they must create a sense of urgency; build guiding teams; get the vision right; communicate for buy-in; em-power action; produce short-term wins; never let up; and make change stick.

Without an organization-wide sense of urgency, it's like trying to build a pyramid on a foundation of empty shoeboxes.

That formula has proven to be both a good way to conceptualize the process and a useful action plan. People make mistakes in all eight steps but, in particular, I think that more attention should be paid to the front end of the change process.
Meet the MasterMinds: John Kotter on How Change Is Changing (Interview with Michael McLaughlin), www.managementconsultingnews.com/interviews/kotter_interview.php.

The seven best books on change

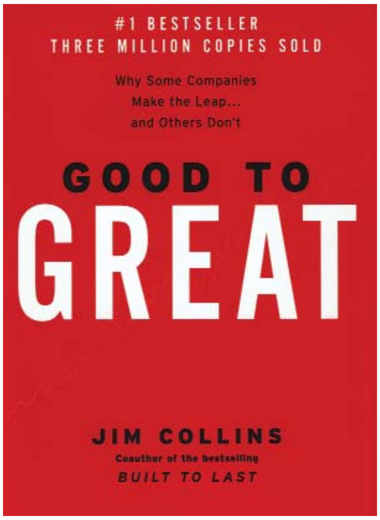
Business journal editors seek out and read books much in the same way that savvy investors seek out stock tips. And, similarly, most business books prove to be as worthless as stock tips. Then there are those books that – because of their research, reasoning and insight – earn a place on the bookshelf and remain there until a better treatment of the subject is found. Here are the books we have admired and kept on hand for those times when we want to know more about managing organizational change.

Jim Collins' ***Good to Great*** (Random House Business Books, 2001) was the author's attempt to define how so-called great companies become that way. Collins specifically did not want to extol the greatness of companies; he had already done that in a prior book. Instead, his mission here was to list the organizational factors that have propelled companies to top-tier rank while also listing the characteristics of the executive leadership atop the enterprise.

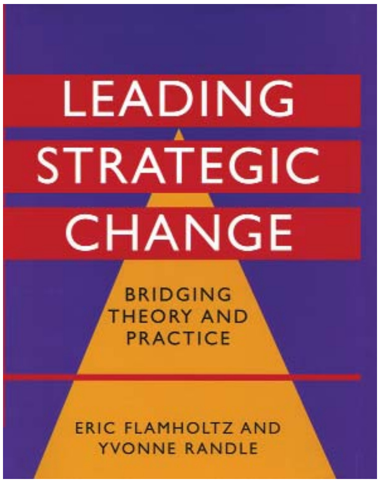
He starts the book on the latter point, great leadership, which he names as "Level 5". This, he says, is someone who "builds enduring greatness through a paradoxical blend of personal humility and professional will". Briefly stated, such leaders lock on a vision of greatness for their company and stow their own ego needs so that stellar organizational performance can evolve.

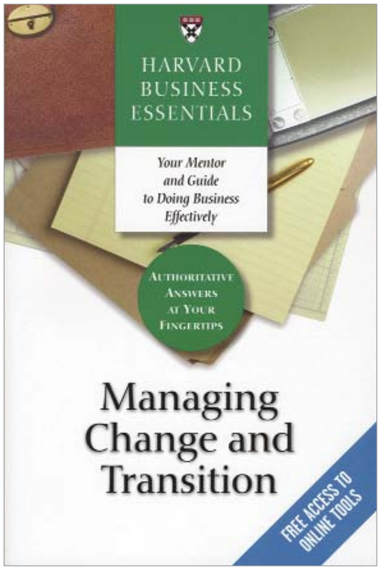
How that's done is the focus of the rest of the book. And Collins, who is a deft wordsmith, has coined some memorable phrases that have become part of management vocabulary. He talks about getting the right people on the bus – hire people who can make the company great; about confronting brutal facts – don't confuse a corporate vision with an illusion; and about deciding (with deference to philosopher Isaiah Berlin) whether you want your company to be a hedgehog or a fox – hedgehogs refrain from being "scattered, diffused and inconsistent". On a number of points, Collins details what's involved in each concept, with the goal of helping you evolve from being a student of change to a change agent.

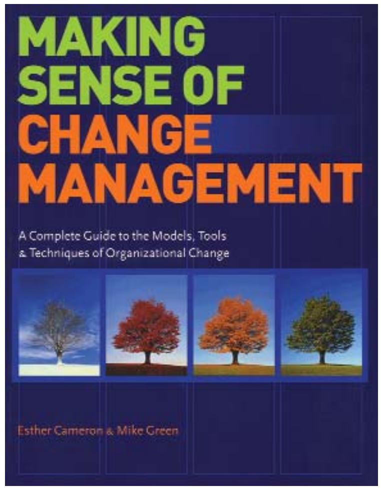
A curious feature added to this book: there's an Epilogue at the end in which Collins asks and answers 17 questions that he thinks readers might be most likely to ask him if they had the chance. Why he only researched publicly traded companies, and only those based in the US, are two of the questions. He also asks if there's anything to learn in the book if your company is already great. He wrestles with the fact that one of the companies he extols sells tobacco products, which could (for some) be an ethical



breach that defies the use of the word *great.* The technique is, admittedly, staged; but it all works well since the book is one that will provoke a great number of questions. His last question is: "Where and how should I begin?" The question is meant to pinpoint how one begins to create a great company from a good one. Amidst Collins' answer is this line: "...the very structure of the book is a roadmap." That's how we see it, too. →







The final result is a book that is usable today, seven years after it first appeared. And while one could easily quibble with Collins' pick of companies used as his sample set for study, he at least provides an abundance of statistical and other research data at the end to show how he arrived at his conclusions. "Good is the enemy of great," he claims at the very start. Every *good* manager should be aware of this book.

Managing Change and Transition (Harvard Business School Publishing, 2003) does not, per se, have an author. It is part of the "Harvard Business Essentials" series, which offers slim works on specific topics literally designed to mentor the reader who wants to engage the subject. No one else has condensed the subject as effectively. The book covers the types of change you'll encounter in organizations, the mindset needed to lead change, and puts forth seven steps to change.

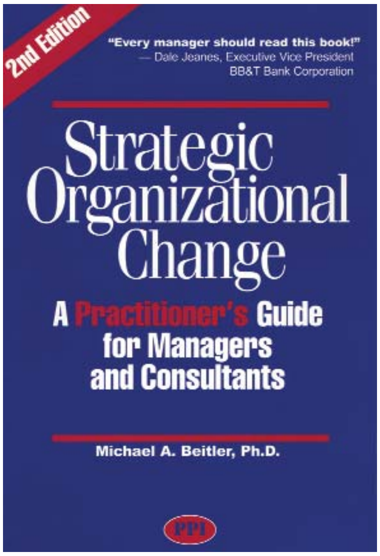
If "seven steps" sounds like a formula, it's only because it is. But the steps, which start with "mobilize energy and commitment through joint identification of business problems and their solutions", are (as you can see) not the simplistic "communicate, communicate, communicate" fare you'll find elsewhere. And the book takes the toughest components of these seven steps (like getting a grip on the social and human factors) and discusses these aspects of change in ways that make the reader feel he can both understand and act upon the advice.

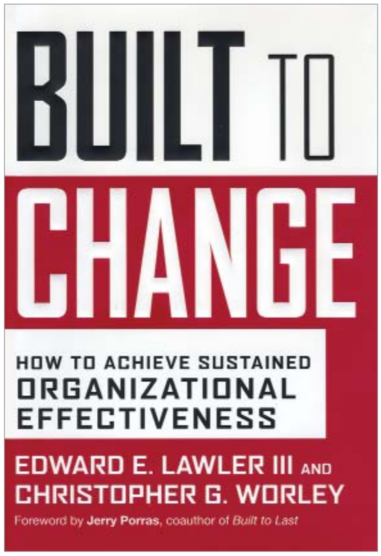
One more plus to the book: it includes checklists on leadership, managing stress levels and even how to select a consultant, should you want to. We mentioned that the book has no author; but, if you read the head notes carefully, you'll see that the book is derived from names such as Todd Jick, Michael Beer, Nitin Nohria and John Kotter – all major figures in the field of change research. The book is as good a primer on change as you can find.

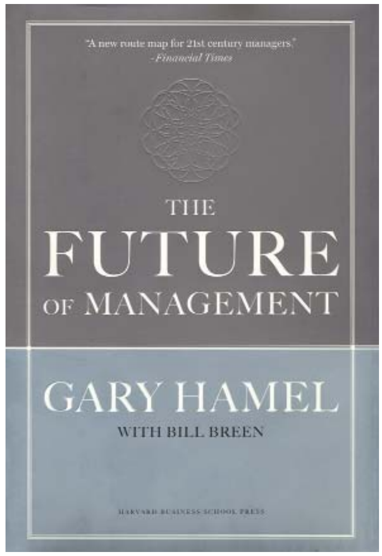
Esther Cameron and Mike Green are consultants as well as academics with connections to institutions such as Henley Management College and the University of Bristol. In ***Making Sense of Change Management*** (Kogan Page, 2004), they aim their book at those who are somewhat overwhelmed by change. "The rate of change and discovery outpaces our individual ability to keep up with it. The organizations we work in or rely on to meet our needs and wants are also changing dramatically, in terms of their strategies, their structures, their systems, their boundaries and of course their expectations of their staff and their managers," they say on the first page. But it is not because these words resonate with our impression of how most people feel about their workplace that makes this book special.

Cameron and Green have made change into a kind of *Pilgrim's Progress* by beginning with individual change, then team change, then organizational change before topping off the first part of the book with a discussion of leading change. In each bite of the change problem, the authors try to break down the components of the topic at hand and then list their best wisdom on how to move forward. For example, on organizational change, they list the different ways others have analysed the subject by profiling how organizations can be best understood (organizations as machines, as political systems, as living organisms and so forth). At the end of the first half of the book, you have really received a mini-seminar on change; and this equips you to absorb the remainder of the book, which is a fair distillation of the subjects of restructuring, mergers and acquisitions, cultural change and IT-based change. As with the other books mentioned, Cameron and Green know the difference between making a subject easy to understand versus making a subject simplistic. They never lose their respect for how hard change is and how quickly it can throw most of us into a state of managerial depression if we're not ahead of the change curve.

Michael Beitler shares that he wrote the 2001 first edition of ***Strategic Organizational Change***







(Practitioner Press International, 2006) when he was a visiting professor at Germany's University of Mannheim. His goal was to share with students all that he had learned over two decades working as a consultant for corporate clients. Beitler moved to a second edition after he realized from his students that they wanted more than theory about change. "My University of Mannheim students quickly grasped the theory," Beitler says, "but they wanted to know how to *do* organizational change. There was plenty of good literature available on theory, but nothing that offered a step-by-step practitioner approach to actually doing organizational change work." His 2006 book thus became about as hands-on as you can imagine, but it has a special spin to its applicability.

Anyone who has read even one article on organizational development (OD) will appreciate how Beitler structures his book to be a guide for someone who is leading an intervention in order to make change. That is, Beitler has written a good book on change management consulting, which does not mean that it's of no value to a corporate manager. Many times managers find themselves in short-term roles in other divisions to lead a change effort; they are as much internal OD consultants as someone performing that role from a human resources standpoint. Moreover, Beitler's book is of enormous value to anyone who is, per se, a consultant – or any manager who employs one. For example, he has six chapters dedicated to the tools available for staging an intervention.

If nothing else, the book excels by including one chapter that's hard to find in many change books: it's dedicated to how to *measure* a change intervention. So many re-engineering efforts failed simply because they pushed change and never thought to figure out whether the change was helping or hurting productivity. Disruptive, unpleasant change usually occurs when there are no metrics for deciding whether the intervention is showing progress, no matter how minute.

Ed Lawler and Christopher Worley are long-time names affiliated with the Centre for Effective Organizations (CEO) at the University of Southern California's Marshall School of Business. Thus, ***Built to Change*** (Jossey-Bass, 2006) emerges as a book that is hinged in a strong way to the centre's work in numerous companies. And anyone looking for company names, to admire or loathe, won't be disappointed. Yet this book is more than a corporate beauty pageant. Lawler and Worley provide some statistics early on that grab readers and shake them up.

"An analysis of Fortune 1000 corporations shows that between 1973 and 1983, 35 per cent of the companies in the top twenty were new," they reveal. The next decade, the number grows to 45 per cent. The next decade, it's 60 per cent. "Any bets as to where it will be between 2003 and 2013?" they inquire. From this vantage point, the authors lay out a convincing argument about the need to get ahead change and not simply react to it. Beyond that point, they argue that managers need to actually "build" organizations that consider change as natural as torpor is to status quo companies. Thus (are you sitting down, leader?), they assert that "leadership is not the answer" but that "organization design is the issue".

Now, there *is* the rub. This is a book that will cause you to think, maybe even rethink, how your company is put together. But it's not simply a book about organizational charts; there's plenty to be found here that talks about the human equation and the importance of information systems. And, yes, they even include a chapter on "Meeting the Leadership Challenge", proving that executive readers are not as marginal as they might have feared at the beginning of this book.

If there's a special plus to this book, it would be the extensive discussion Lawler and Worley include on the utilization of compensation systems to effect change. →

→ "Designing Reward Systems" is good stuff even for companies that plan to never change, for it provides a thorough briefing on the logic that should be in place in any organizational reward design (but too often is not). Does this mean that the authors think that change is driven only by the motivation for money? It would be good to obtain the book to find the answer to that question, wouldn't it?

Gary Hamel received a great deal of press when he published ***The Future of Management*** (Harvard Business School Press, 2007; written with Bill Breen). Among other highly favourable reviews, Hamel found himself (and thus his book) at the top of the list of influential business thinkers as assembled by *The Wall Street Journal* in 2008. So, what makes this a book to keep on the subject of change?

Hamel positions change and innovation as, emphatically, a management challenge. That's a thought worth pondering for a few moments here. Many a manager, we think, considers change something that is incumbent on *someone else* in the organization, mainly because they are blind to their own need for personal or organizational change. "If only the rest of the company were run better," they sigh, "my unit could shine!"

Hamel goes beyond the issue of who, really, should own the change challenge and puts it at the feet of management with a capital "M". He says that organizations need to find ways to dramatically accelerate the pace of strategic renewal, to make innovation everyone's job every day – and to create highly engaging work environments that inspire employees to give their very best. This leads to revelatory thoughts such as stripping the organization of any bosses so that plenty of leaders can emerge. This, and other suggestions, are all mind shakers; but, as noted, it's all part of un-packaging the job of management so that it can be repackaged into a function that is better called (and he has a whole chapter on this) "Management 2.0".

What Hamel has done very effectively in this book is no small task: forcing the managerial reader to look in the mirror and ask questions such as "What is my job?" and "How do I add value to this company?" and "How do I help this enterprise work better and grow stronger?" While those questions are ours, they sprung from a close reading of Hamel's book. Make sure you have a thinking cap on before beginning the book, for Hamel goes from zero to *fast* in seconds: "What does the future of management look like to you? Cast your mind forward a decade or two and ask yourself: How will tomorrow's most successful companies be organized and managed? What new and unorthodox management practices will distinguish the vanguard from the old guard? What will managers in bellwether organizations be doing, or *not* doing, that would surprise today's business leaders?" That all comes on the opening page of the book, and the book moves at that same inspiring pace all the way to the end.

Eric Flamholtz and Yvonne Randle issued ***Leading Strategic Change*** (Cambridge University Press, 2008) with one goal: to bridge theory about this subject with practice. Though Flamholtz has an academic back-ground, both have done extensive consulting; so their qualifications to build such a bridge are reasonable. The question: is this book the bridge they promise? By and large, it is.

While you'll find a lot of theory (for example, you find words like "typology" used frequently), you'll also find an abundance of charts and graphs – just the kind that the most eager of management beavers would hope for so they can "get to work". The treasure to be found in the book, however, is a surprising one. The book offers case studies of companies such as Infogix, Starbucks and Tata Steel. Such studies will always cause some readers to question immediately how the company in question is doing *now.* Yet, that question is a welcome one to the authors, for they surely realized that – as of today – whether their case study companies are faring well or ill, their testimony about the change processes utilized in each case will help managers facing similar challenges.

The book concludes with "Lessons and insights from case studies of change," a chapter all the more rich in insight after you have "lived" through the nine cases that precede it. Their points of advice in this chapter are exactly the kind of takeaways that both a hands-on manager or a B-school professor would want. We'd call that a bridge.

"Another contribution made by this book," the authors say on the final page, "has been to help define a language or vocabulary of change." They make a good point; that *is* an asset. As with any process (which, of course, change is), it is often difficult to communicate with all the affected parties what the company's leadership is trying to do and how efforts on that behalf can be reasonably discussed. To get to the root level of the problem, people can't change something together if they can't understand what each other is thinking. Thus, the common language used by Flamholtz and Randle may seem like a small thing, but it just may be the culmination of their achievement in this work.

We suspect an entire book could be published of quotations by thinkers and doers who, over the ages, have tried to change organizations big and small. If tried, the editor of such a book would surely draw from these seven books. To our memory, none of these books cites Winston Churchill's thought that "there's nothing wrong with change, if it is in the right direction". Consider these seven books your best maps right now to keep your change efforts on course.

MY DAY

Donna Martin, Senior Vice President and Chief Human Resources Officer, Ameren Corporation

4:45 AM Music awakes me. Four cats fed, I pack my breakfast, lunch and two snacks. Check Blackberry for messages and calendar to know how to dress. It's 6 AM. I tune to soft jazz for 30-minute drive; music sets my mood and energy level.

6:30 AM I check our corporate Wellness Centre for attendance; then in the lift to 5th floor office. Strong coffee accompanies breakfast. I prep for a Benefits Committee meeting and decisions on our health care cost-sharing strategy between the company and employees-retirees. We also will review several pension plan amendments tied to new government regulations.

7:15 AM My assistant, Pat Fortney, arrives and overviews materials I'll need for today's meetings. Off to Benefits Committee.

9:00 AM Back to office for messages. One is from a retiree who'd like me to hire his grandson. I snack while I talk.

9:30 AM Two HR staff and an attorney arrive to discuss our policy requiring officers to retire at 65. Surprise: no one can find written documentation for this long-established practice. I ask them to benchmark other companies so I can prepare a recommendation for Board of Directors.

10:30 AM A new female executive arrives for an hour of coaching and mentoring. I convey that being an officer is more than just new job responsibilities; she must think about the shadow an officer casts as a role model.

11:30 AM Working lunch; I join teleconference on my workforce planning project. Later, I check messages and talk with assistant. I also check my energy: am I being a good management model?

1:00 PM The Executive Leadership Team discusses our stock price and effect of proposed rate changes. We also have to set corporate priorities for next 18 months. Everything discussed will have tremendous consequences. Only some issues settled; we adjourn at 3:00 PM.

3:15 PM A protein bar is my booster for filming a five-minute message regarding our culture change initiative called "Project Unfreeze". The video is for our next officers' meeting. I change into a formal gown for some fun: we're filming our company version of *American Idol* with one of our labour union leaders in support of a United Way campaign.

4:30 PM Back in business attire to meet with my HR vice presidents on: (1) budget reallocations, (2) preparations for a Board presentation on workforce planning and (3) refocusing resources to meet dramatically increasing hiring needs. After meeting ends, one VP stays to discuss a reorganization plan, which I approve with modifications.

6:00 PM Emails, phone calls and my "blue chip" to-dos for tomorrow.

7:00 PM To health club before it closes, I exercise and de-stress. Home by 8:00 PM to feed cats and dine alone. Later, I relax with escape fiction. I call two close to my heart: my 86-year-old mother at her home and my husband, working at our farm.

10:00 PM I reflect how fortunate I am to work at a profession I'm passionate about, one with so many opportunities to lead change. Working for a power company is great, but it does take a lot of energy. But now, sleep.

Donna Martin can be reached at dmartin@ameren.com.

