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How to engage your
employees and stop
wasting everyone's time

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Jacket in patterned
cotton poplin
Straight trousers
in patterned cotton
and linen gabardine

«Dressage» chronograph
in steel, silvered dial,
matt alligator strap

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Metamorphosis, an Hermès story



A close-up, high-angle photograph of a Breguet Héritage 5400 chronograph watch. The watch has a tonneau-shaped case with a curved bezel. The dial is made of metal with a guilloché pattern and features a monobloc chapter-ring. The watch has blue hands and a blue seconds sub-dial at the 6 o'clock position. The text "BREGUET 4528" is visible on the dial. The watch is set against a dark, textured background.

Breguet, the innovator.

Héritage 5400 chronograph

A resolutely contemporary interpretation of the traditional Breguet style, the Héritage 5400 chronograph stems from the combined mastery and expertise of the engineers, watchmakers and artisans of the Manufacture. Both the *tonneau*-shaped case and the finely *guilloché* dial with a monobloc chapter-ring are elegantly curved along two axes – a daring approach on both aesthetic and horological levels. History is still being written...



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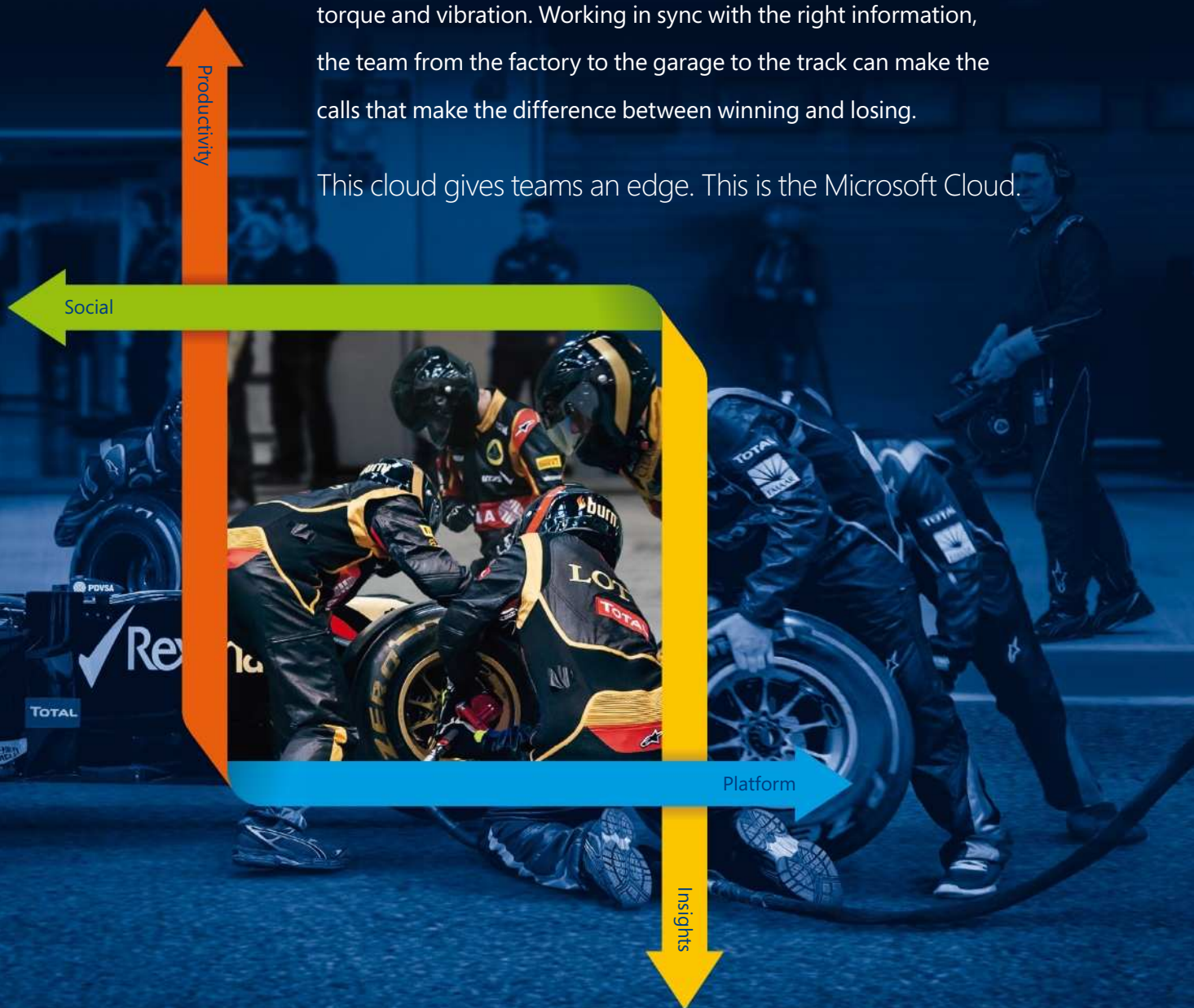
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THE BIG IDEA**Beware the Next Big Thing**

It's easy to get swept up in the glamour of a new idea, but not every management innovation will produce rewards for your company. Here's how to find the real value behind the hype.

Julian Birkinshaw



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How to Outsmart Activist Investors

Six ways to fend off—or benefit from—activist challenges *Bill George and Jay W. Lorsch*

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Many of the best people in an organization don't seek the spotlight—they simply want to do excellent work. It's important to know what they crave and give it to them. *David Zweig*

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From Purpose to Impact

Purpose-driven leadership is increasingly seen as the key to high performance and well-being, but all too often, executives don't have a clear understanding of their purpose, much less a plan for putting it into action. A new framework shows the way. *Nick Craig and Scott Snook*

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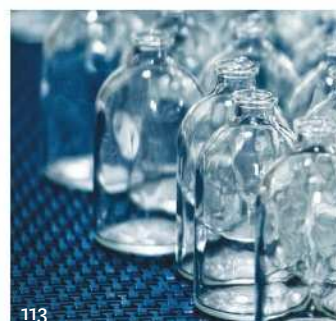
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Israel's companies may become tomorrow's global giants.

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A BOTTOM LINE ISSUE

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We work with the world's leading organizations to create places that amplify the performance of their people, teams and enterprise.

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When IBM asked CEOs around the world to identify the most important leadership traits needed today, their answer was resounding: collaborative, communicative, creative and flexible. CEOs are seeking “employees with the ability to constantly reinvent themselves. These employees are comfortable with change; they learn as they go, often from others’ experiences,” notes the study. Driving the need for these skills is the complexity of problems that organizations face today, and the demand for innovation that is no longer the turf of elite, top brands. Innovation is critical to drive bottom line results.

But here’s the new dilemma that CEOs face: collaboration, communication, creativity and flexibility are a set of behaviors that require leadership skills, metrics and mindsets that are different from what many business leaders have learned in the past. For decades, business schools churned out young leaders who were well trained in areas such as logistics, supply chain management, analysis and the like. Only recently are organizations recognizing that those business fundamentals aren’t enough on their own. They also need to create an environment and culture.

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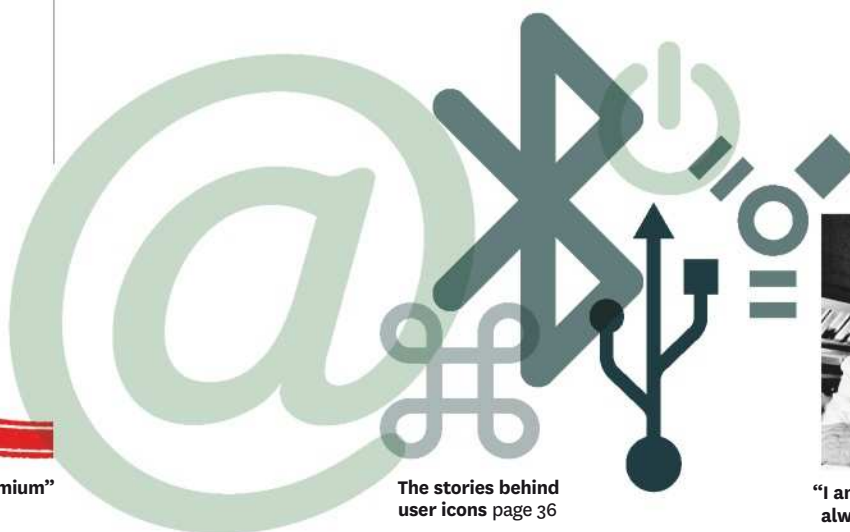
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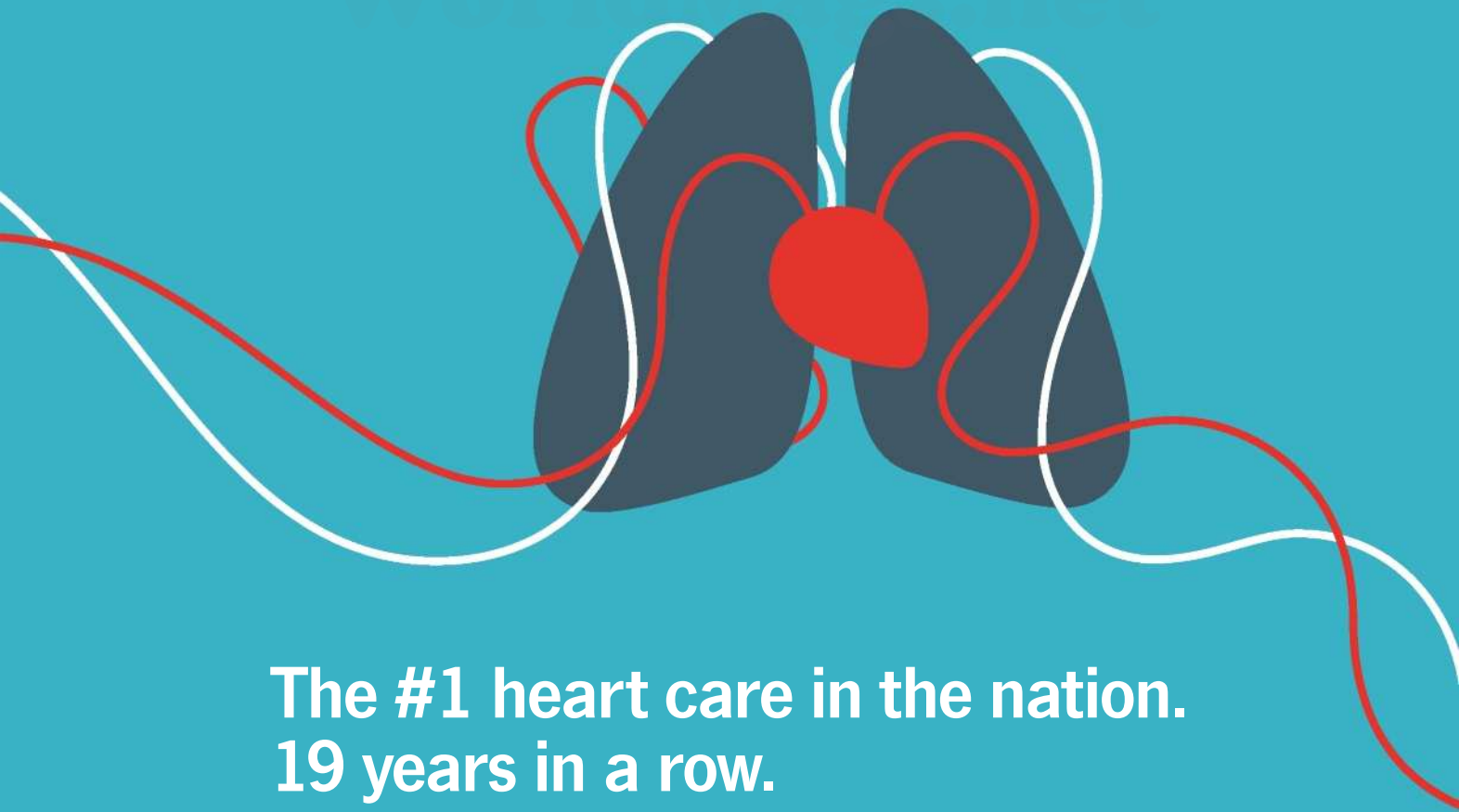
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From the Editor

A New Blue Ocean

Ten years ago, W. Chan Kim and Renée Mauborgne wrote one of the most influential *Harvard Business Review* articles of all time: “Blue Ocean Strategy.” The piece showed how companies can gain a competitive edge not by challenging their rivals head-on but by finding uncontested “blue ocean” markets to conquer instead. That phrase entered the business vernacular, and their book on the topic, published in 2005 by Harvard Business School Press, has sold an estimated 3.5 million copies worldwide.

This month we’re pleased to be publishing Kim and Mauborgne’s latest work: “Blue Ocean Leadership.” In this article the INSEAD professors apply their model to understanding what managers at all levels need to do to tap the unrealized energy of employees who aren’t fully engaged. It’s a compelling challenge: Research shows that the 20% of workers who are discontented cost the U.S. economy around half a trillion dollars a year.

The article is part of our Spotlight on Leading the Focused Organization, which begins on page 59. Elsewhere in the Spotlight, a trio of Bain & Company authors—Michael Mankins, Chris Brahm, and Gregory Caimi—show how companies frequently squander their most precious resource: time. While organizations require a strong business case for any new capital investment and delegate authority very cautiously, time goes largely unmanaged. The piece details how leaders at some forward-looking firms are tackling the problem—and getting results.

The third article in the package focuses on another thorny leadership issue: getting your team to do what it says it’s going to do. Social psychologist Heidi Grant Halvorson demonstrates how to improve execution through an approach motivational scientists call “if-then planning.” It works for individuals and, studies now show, for groups as well.

Last, be sure to read the piece by Bill George and Jay W. Lorsch, “How to Outsmart Activist Investors.” You never know when your company might need to fend off a challenge from a hedge fund.



Adi Ignatius, Editor in Chief



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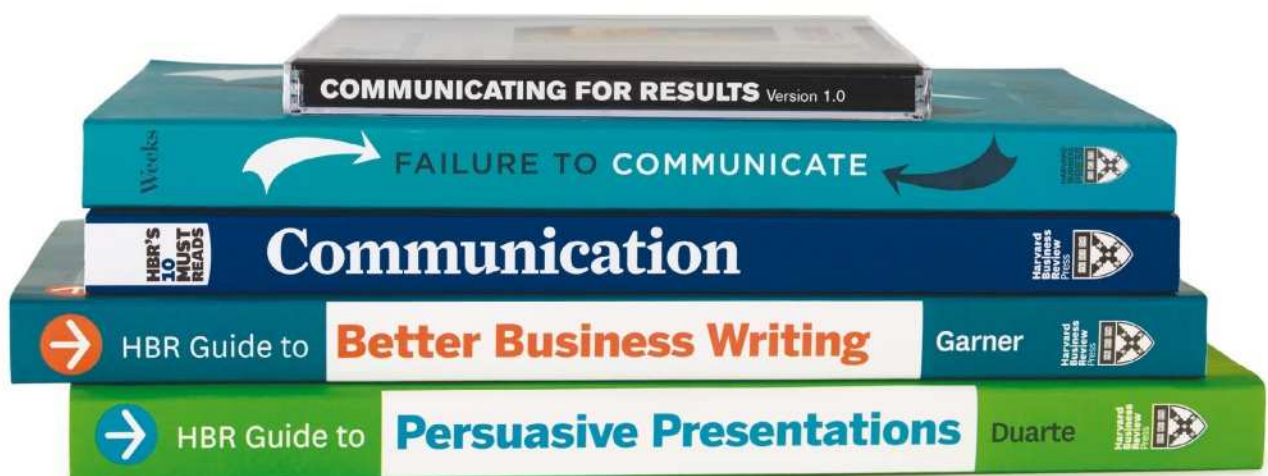
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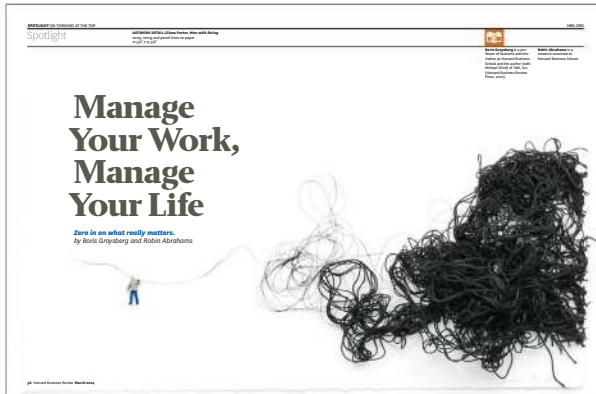
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The Elusive Ideal of Work/Life Balance



HBR article by **Boris Groysberg and Robin Abrahams**, March
Interviews with nearly 4,000 executives reveal the complexities of managing conflicts between work

and life, say two authors from Harvard Business School. But even if “balance” is hard to find, deliberate choices—about what constitutes success, when to unplug from technology, how much to travel, and more—can help make the most of executives’ limited time and energy.

Context is everything. To me, it is impossible to consider work/life integration without looking at what phase individuals find themselves in. One size, one policy, does not fit all.

Eileen McDargh, CEO, Resiliency Group

The image of the home where the kids need your attention and you’re distracted by your mobile device is an anachronism. More likely, it’s the kids who are on devices and distracted. I find that when I’m home, it’s great to be there and chat.

But being on a mobile device is the norm nowadays.

James Neophytou, associate partner, IBM

The advice about making choices seems to suggest that all persons are in an equal position to choose. Someone with an aging parent, a disabled spouse, or young children probably doesn’t have as many options as someone who is not in those circumstances.

Daniel Emery, associate professor of business writing, The University of Oklahoma

Oftentimes these articles are geared to those with spouses and children, but as a single woman, I certainly still have to balance taking care of myself, spending quality time with loved ones, achieving success in my business, and following through on my commitment to a vocation of service. I agree that we must determine the success factors for ourselves and not allow external opinions to influence us. At the end of each day, we should ask ourselves: “Did we do our best to meet our priorities for that day, based on the given circumstances and unexpected life events?” Today agility and fluidity are truly the key elements required—along with patience, compassion, forgiveness, and gentle discipline.

Maryrose Solis, founder, March 4ward



HBR article by **David DeSteno**, March

Who Can You Trust?

Trustworthiness depends on circumstance; power corrupts; and confidence often masks incompetence, says a professor of psychology.

Having worked as a consultant in a variety of countries, I was surprised at the four body language cues that signal someone can’t be trusted. My experience makes me wonder, Do they apply equally in distinctly different cultures? It appears that much of the research cited was with U.S. college students. Can the four cues be extended to noncollege or older people?

Will Phillips, founder and CEO, REX Roundtables for Executives

The author responds: *Though we don’t have cross-cultural data, I’d expect the same signals to be valid. They combine basic markers that often represent either a desire to avoid affiliation or a sense of unease—just what you’d expect from someone about to cheat you. It’s certainly the case, however, that different cultures have distinct nonverbal “accents.” Therefore, accuracy in making inferences about trustworthiness will increase with culture-specific tweaking. The four cues we identified are probably not the only ones that*



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As long as most men are content to pursue limited relationships with their children, work/life balance will be a women's issue and, specifically, a moms' issue. Lots of effort has gone into trying to make work/life balance a more general concern, and this article and others suggest tactics to facilitate that. But if it's not actually a concern for men with children or for people of both sexes without children, what then? What if ambitious people without children really are happy to work all the time, and most men with children are happy with spending just 10 minutes a night with them?

Kieran Snyder, group program manager, Microsoft

What we need to strive for is to live fully, be it on or off the job, rather than trying to balance both. This work/life congruence can happen only when "what we want to be," that is, our interests and values, manifests itself in "what we do"—our work. But in reality, what we do is more often determined by what we want to have, such as pay, perks, or position.

Bharath Gopalan, senior deputy general manager, Ramco Cements



matter. Still, they do help in detecting untrustworthiness.

I can tell a lot about a vendor's intent to be trustworthy, and how much the vendor trusts me, by the wording in its contract and its willingness to negotiate changes to create a balanced agreement. The more one-sided the contract, the more willing I am to walk away from the deal—even if the next best option costs more.

Ross Holman, founder and CEO, Palomino Consulting Group

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1 "Stanford University's Economic Impact via Innovation and Entrepreneurship," a 2012 study by Stanford professors Charles Eesley and William F. Miller

Interaction



Hire Slow, Fire Fast

HBR.org article by **Greg McKeown**, March

Nothing is worse for an organization than being stuck with the wrong people, which can lead to what Guy Kawasaki calls a “bozo explosion” on the staff. McKeown argues for taking time to make the right hires, looking for “natural fit,” and trying out employees for a day on the job before finalizing an offer. He also advocates letting go of people who aren’t working out.

Sometimes “hiring slow” (with many rounds of interviews) is perceived as indecisiveness on the part of the employer. As a headhunter, I’ve often advised my clients to act decisively upon finding the “right” candidate. You can never be perfect, and taking action (even though it may prove wrong at the end) is better than delaying it and possibly losing the competition for talent.

Teddy Chin Siong Tan, consulting director, Idealsearch

The author responds: *There are two kinds of “hiring slow.” The first is when things are slow because of bad processes and a lack of discipline. In this case, we miss the right people. The second is when the process is slow (or, more precisely, “absurdly selective”) by design. In this case, the right person, once found, can still be brought in quickly. To get it right, we need to remove the organizational scar tissue that builds up around hiring. It should be a tough process but not a stagnant one.*

If “hire slow, fire fast” is a company’s policy, that should be mentioned in its want ads. Applicants should know what kind of company they will be facing when they apply: This organization will put you through hours of interviews and testing, and if it does deem you fit to hire, will let you go for the smallest reason.

Baruch Atta, technical lead, Maryland Department of Public Safety

The author responds: *Done right, this approach is absolutely something that companies would want to advertise. As another commentator mentioned, the Zappos practice of paying employees to leave is an example of “hire slow, fire fast.” The company publicizes that practice everywhere. But the underlying philosophy is “We want just the right people to stay here. We select carefully, and we don’t want to retain people who would rather be elsewhere.”*

There’s a lot to be said for hiring deliberately. But if you select only candidates with a “natural fit,” you risk losing diversity and fresh perspectives, which some organizations desperately need. And the tendency to fire fast may eliminate whatever candidates managed to find their way in but did not conform to the local practices.

Haim Toeg, enterprise technology services executive

As a woman, I got tired of male-dominated cultures where the “natural fit” was a set of self-perpetuating so-called leadership attributes based on old paradigms. I’m sure there are many men who hate those cultures, too. The article’s recommendations are interesting, provided a company remains open and manages the risk of lack of diversity (of thinking, perspectives, and experiences).

Helen Wiseman, director, Imalia



The Surprising Power of Impulse Control

HBR.org article by **H. James Wilson**, February

Using a kitchen timer to work for 25 minutes straight on a single task, followed by a five-minute break—the “Pomodoro technique”—may help improve willpower and productivity.

A number of people may find that the 25-minute cutoff breaks their groove. What’s the solution around that?

Piotr Yordanov, founder, BleepApp

The author responds: *Other experimenters have tinkered with the length of the interval. Some people did 35 minutes in the morning (when their focus was better) and 20 minutes in the afternoon (when their focus had decayed). I think the key is to adapt the approach in a way that helps productivity and leverages flow. Two ways I’ve seen this done: (1) increase the time interval for tasks you find inherently engaging, but still take a five-minute break at the end, and (2) use the technique only for tasks that you want to avoid or consider less engaging.*

What would be a good Pomodoro approach for managers? I keep an open door policy and want my team members to feel as if they can come to me with questions at any time. Should I set boundaries and have 25-minute slots for addressing team needs?

Garret Moniz, business development manager, NetSuite

The author responds: *One approach that works with an open door policy is to politely say, “Can I come by your office in x minutes? I’m in the middle of something.” Also, it can be helpful to track trends around drop-bys. If they tend to happen at certain times, you can avoid doing Pomodoros when you’re most likely to be interrupted by others.*





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MARKETING 30
The key to effective
mobile discounts

**DEFEND YOUR
RESEARCH 34**
In the afternoon,
the moral slope
gets slipperier

**VISION
STATEMENT 36**
Where did the
graphical icons
on our tech gadgets
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COLUMN 42
Carter Roberts
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climate change

Idea Watch

New Thinking, Research in Progress hbr.org

STRATEGY

Making “Freemium” Work

Many start-ups fail to recognize
the challenges of this popular
business model.

by Vineet Kumar

Over the past decade “freemium”—a combination of “free” and “premium”—has become the dominant business model among internet start-ups and smartphone app developers. Users get basic features at no cost and can access richer functionality for a subscription fee. If you’ve networked on LinkedIn, shared files through Dropbox, watched TV shows through Hulu, or searched for a mate on Match, you’ve experienced the model firsthand. It works for B2B companies as well—examples include Box, Splunk, and Yammer.

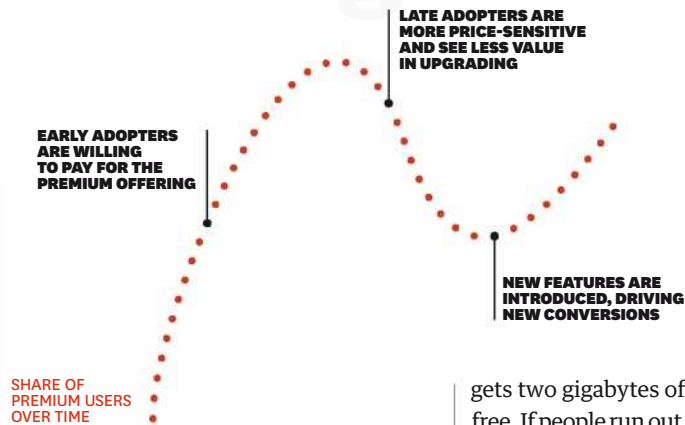
Several factors contribute to the appeal of a freemium strategy. Because free features are a potent marketing tool, the model allows a new venture to scale up and attract a user base

without expending resources on costly ad campaigns or a traditional sales force. The monthly subscription fees typically charged are proving to be a more sustainable source of revenue than the advertising model prevalent among online firms in the early 2000s. Social networks are powerful drivers: Many services offer incentives for referring friends (which is more appealing when the product is free). And freemium is more successful than 30-day free trials or other limited-term offers, because customers have become wary of cumbersome cancellation processes and find indefinite free access more compelling.

But despite its popularity and clear benefits, freemium is still poorly understood. It has inherent challenges, as demonstrated by the many start-ups that have tried but failed to make it work. For several years I have studied freemium models in depth—by coauthoring (with my HBS colleagues Bharat Anand, Sunil Gupta, and Felix Oberholzer-Gee) a case on the *New York Times*'s paywall strategy (a variation of the freemium model); conducting a deep dive into the user data of a storage and synchronization company; and coauthoring (with my HBS colleagues Clarence Lee and Sunil Gupta) a working paper on how freemium companies can use referrals to spur usage and upgrades. Through this work I've come up with six questions that start-ups considering a freemium model should ask.

What should be free? Let's say you've created a digital product that has 20 features and you've chosen five that will be free to anyone who registers on your site. Users who want the other 15 will have to pay. How do you know whether you've made the right choices? And if you suspect that you haven't, what should you do?

Recall that one of the chief purposes of freemium is to attract new users. If you're not succeeding with that goal, it probably means that your free offerings are not compelling enough and you need to provide more or better features free. If you're generating lots of traffic but few people are paying to upgrade, you may have the opposite problem: Your free offerings are *too*



THE LIFE CYCLE OF UPGRADES

Freemium companies typically see the share of paid subscriptions (and therefore cash flow) rise and fall and then rise again in a predictable way over time. Those that don't account for this phenomenon risk failure.

rich, and it's time to cut back. This kind of tuning was evident at the *New York Times* website. After years of unrestricted access, in 2011 the paper began limiting users to 20 free articles a month; people had to subscribe if they wanted to read more. Over subsequent months the company realized it was still giving away too much and was getting too few subscribers as a result, so in 2012 it cut the number of free monthly articles to 10. Start-ups should expect to do similar tweaking to find the optimal balance between traffic and paying customers. The balancing act can be tricky: Users may revolt when asked to pay for things they are accustomed to getting free.

Do customers fully understand the premium offer? Communicating two sets of benefits complicates your marketing efforts. If customers don't clearly grasp what they would gain by upgrading, you will monetize fewer of them than you otherwise might.

Dropbox and LinkedIn are a study in contrasts. The former has attracted 200 million users with a simple proposition: Everyone who enters a username and a password

gets two gigabytes of cloud-based storage free. If people run out of space, they can pay \$9.99 a month (or, alternatively, \$99 a year) for 100 GB of storage. The free version is adequate for basic documents, but anyone who wants to back up photos or other media quickly hits the limit, and the reasons to upgrade are obvious.

For many LinkedIn users, the advantages of upgrading are murkier. I've used LinkedIn for several years to keep in touch with colleagues, and I routinely receive e-mails urging me to upgrade—but the ongoing value of doing so is not apparent. (The company offers four premium subscriptions, some aimed at specific customer segments, such as recruiters or salespeople, and most featuring deeper search functionality, better e-mail capability, and more visibility into who has viewed your profile.) Although LinkedIn is successful—it was one of the first freemium companies to go public—it could probably monetize more users if the distinctions between its free and paid offerings were clearer.

What is your target conversion rate? Imagine that you're the CEO of a freemium start-up and you're handed a report showing your conversion rate (the percentage of free users who have upgraded to a premium plan) for the most recent quarter. What figure do you hope to see?

A rate of 1% is probably too low, especially if you rely on subscription revenue alone. (Some players, including the *New York Times* and LinkedIn, also collect online ad revenue.) It signals either that too much of what you're providing is free—giving users little reason to upgrade—or that consumers don't understand or value your premium features.

But, less obviously, a very high conversion rate isn't necessarily good. Remember that one of the benefits of a freemium model is the ability to generate traffic.

Suppose that 50% of the users of your free product upgrade to premium. You might think that your model is working well; but perhaps your free product is not very compelling, which will limit your potential acquisitions. All other things being equal, you would do better to convert 5% of 2 million monthly visitors, for example, than to convert 50% of 100,000 visitors. The best long-term strategy is generally to aim for a moderate conversion rate (in my research, I've found that most companies' range from 2% to 5%) coupled with a high volume of traffic. If you're targeting a small market, you should aim for a higher rate.

Are you prepared for the conversion life cycle? Let's assume you're attracting plenty of traffic and new users, and your conversion rate is 5%. You want to forecast growth and revenue. Can you simply draw a couple of straight lines, on the assumption that the rate will hold steady?

No. Early adopters are less price-sensitive than others, so they are more likely to upgrade. And often they are people for whom the value proposition is unusually compelling. (For instance, recruiters were

early adopters of LinkedIn, because their business depends on their ability to identify and connect with professionals.) So over time, conversion rates typically dip as the user base expands to include people who are more price-sensitive or who see less value in the service. Although freemium companies universally have a very low marginal cost for each new user—otherwise the model wouldn't make sense—those costs aren't zero. At a minimum, free users put demands on server space and customer service.

Companies that fail to understand these realities may feel a cash crunch as the number of free users grows and the cost of servicing them therefore rises. This is often the reason that companies launched with freemium models pivot away, converting to free time-limited trials or eliminating free offerings altogether. Start-ups that have recently made such a switch include LogMeIn, whose software provides remote access to PCs, and SugarSync, a cloud storage company that competes with Dropbox.

Are users becoming evangelists? It's important to recognize the full value


of your free users, which takes two forms: Some of them become subscribers, and some draw in new members who become subscribers. In our HBS working paper and in ongoing research, we have found that a free user is typically worth 15% to 25% as much as a premium subscriber, with significant value stemming from referrals. We have also found that firms can increase the value of referrals by carefully managing referral incentives and communications. If you're considering a freemium model, pay close attention to why and how satisfied users might help your product go viral.

Are you committed to ongoing innovation? It's a mistake to see freemium merely as a customer acquisition tool and to drop the free version when new customers stop coming in or when the upgrade rate dives. Users who join late are typically harder to convert; therefore, in order to keep increasing upgrades, you'll need to keep increasing the value of your premium services. Smart companies view freemium not only as a revenue model but also as a commitment to innovation.

Dropbox is a good example. When it launched, in 2008, it was primarily a service for backing up files. It then began offering shared folders, making it a collaboration tool. Newer features allow for automatic syncing of smartphones and other devices and for automatic uploading of photos. Over time the user interface has improved as well. Each new feature has increased the value of the premium offering.

In today's digital era, when the marginal costs of many products are dropping, businesses will increasingly turn to the freemium model. Across industries ranging from media (where companies are forced to rely less on advertising revenue and more on subscriber revenue) to education (where players may eventually seek to monetize mostly free online courses), the model is destined to grow more attractive. Companies can boost their odds of success by considering the six key questions above. ▀

HBR Reprint F1405A

 **Vineet Kumar** is an assistant professor of marketing at Harvard Business School.

How Four Companies Use the Model

Among the biggest decisions facing "freemium" businesses are which features to make free and how much to charge for the rest. Here's a look at several approaches:

	Dropbox	LinkedIn	NYTimes.com	Spotify
WHAT IT IS	A cloud storage and file-sharing service	A social media site for professional networking	A digital, enhanced version of the print newspaper	A music streaming and downloading service
WHAT'S FREE	2 GB of storage, with up to 16 GB more for referring friends	Creating a profile, making connections, basic communication	10 articles a month	Unlimited music, interspersed with ads
WHAT'S PREMIUM	100 GB of storage for \$9.99 a month	Advanced searches and communication, starting at \$19.95 a month	Full access, starting at \$3.75 a week	Downloads and ad-free streaming for \$9.99 a month
HOW MANY USE IT	More than 200 million users (free and premium)	277 million users (free and premium) at the end of 2013	53.8 million visitors in December 2013; 760,000 subscribers	24 million users, of whom 6 million are subscribers

Research Watch

THE MYTH OF THE OFFICE OASIS

Do people in bad relationships devote more time to their jobs, escaping to the relative sanctity of the office, as is often hypothesized? Just the opposite, says a team led by **Dana Unger**, of the University of Mannheim. A diary study of 76 dual-earner couples showed that most employees cut back on work when things weren't smooth at home, wanting to repair matters. They put in longer hours on days when they were satisfied with their relationships, perhaps because of increased vigor.



MARKETING by Zheng Fang, Xueming Luo, Michelle Andrews, and Chee Wei Phang

Mobile Discounts: A Matter of Distance and Time

For marketers, one of the great opportunities presented by smartphone technology is the use of geolocation to offer consumers real-time discounts and incentives. Already companies such as the clothing retailer H&M and the gourmet grocery chain Central Market employ GPS and wireless triangulation to learn when a consumer is in the immediate vicinity of a store—or inside it—so that they can transmit promotional offers on the spot.

Retailers would also like to influence consumers who are beyond their immediate perimeter. That means they need a good sense of how distance and time affect receptivity to mobile offers.

To understand these factors, we worked with a large mobile service provider to send offers for discounted IMAX movie tickets via text message to 12,265 mobile phone users in China. We divided the recipients into two groups according to whether they were close to the theater (within 200 meters) or farther away (from 500 meters to two kilometers). We also varied the discount's timing: Some recipients were offered low-priced tickets for the same day, some for the following day, and some for two days later.

The results showed a clear relationship between time, proximity, and the odds that a consumer would buy a ticket after receiving a discount offer. For consumers close to

Compared with promotions
for discounted movie
tickets sent two days
in advance, same-day
promotions increased the
odds of a purchase by

76%

the theater, same-day promotions worked best: Compared with promotions sent two days in advance (the least effective across the board), they increased the odds of a purchase by 76%. For consumers farther away, a one-day delay was the most effective, increasing the odds of a purchase by 71% compared with a two-day lag.

We believe that these findings result in part from the size of mobile devices. Con-

strained by small screens, consumers tend to use smartphones for activities that can be completed quickly and don't have to be postponed or remembered for very long—obtaining directions, checking the weather, or texting friends to coordinate plans, for example. Thus, a promotion for a nearby event is most appealing when the event will happen quite soon. For mobile users at a remove from a promoted event, travel time and planning become constraints, so they do better with some advance notice—though our results show that there's such a thing as too much advance notice, presumably because the promotional benefits are then not immediate enough.

Geo-based discounts can be useful to any retailer, but our findings will be particularly relevant to brick-and-mortar businesses, such as theaters, restaurants, and salons, that want to fill excess capacity. Just as airlines and hotels adjust pricing in order to manage inventory, these kinds of businesses will increasingly turn to mobile discounts to spur spontaneous purchases. As they do, understanding exactly where and when to send offers will boost their effectiveness. ▀

HBR Reprint F1405B

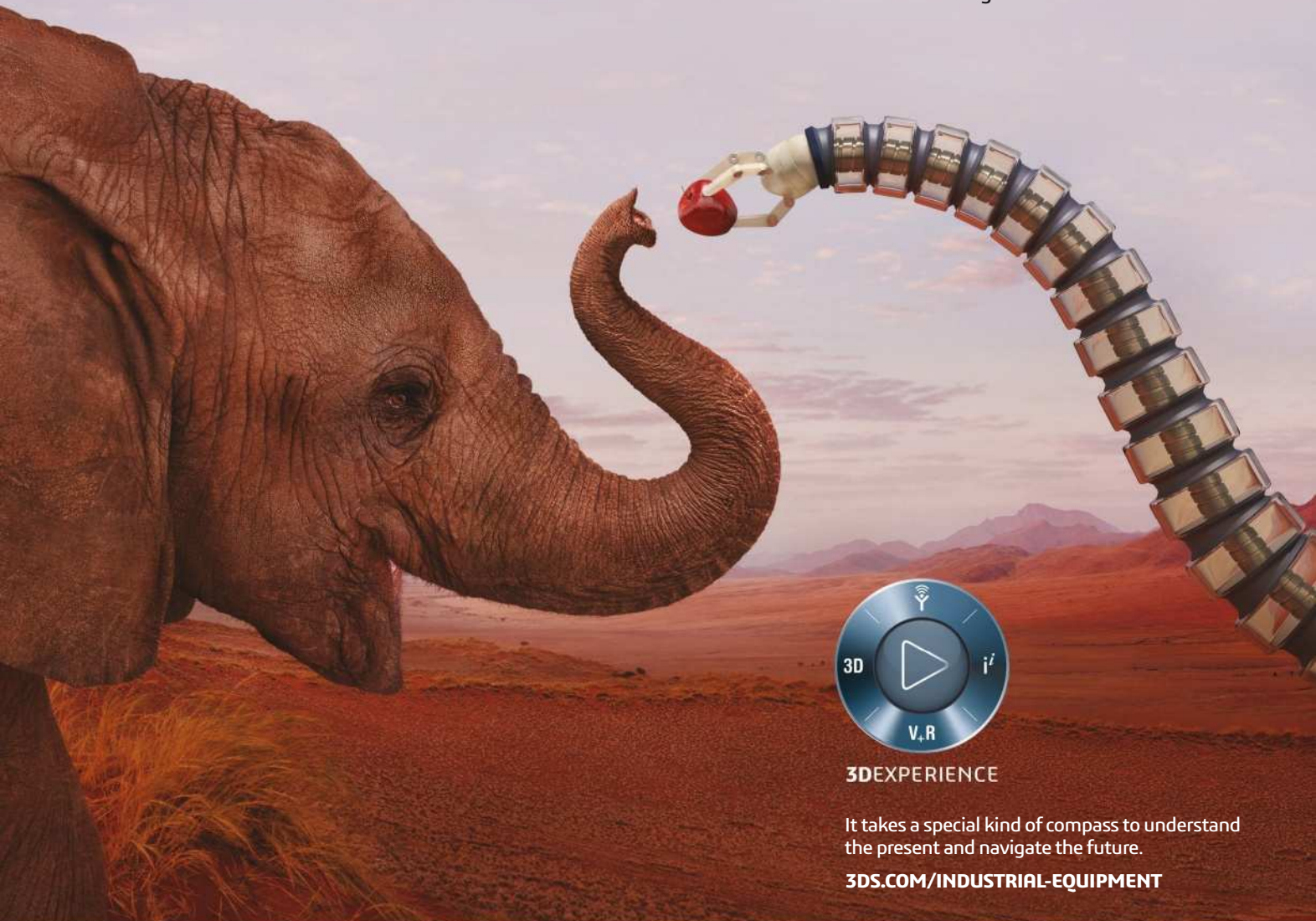
Zheng Fang is an associate professor at Sichuan University. **Xueming Luo** is a professor, and **Michelle Andrews** is a PhD student, at Temple University. **Chee Wei Phang** is an associate professor at Fudan University.



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Stat Watch

77°F

Temperature at which online shoppers were likelier to go to a “purchase” page

Online shoppers were 46% likelier to go to a “purchase” page when the average daily temperature was 77°F (25°C) than when it was 68°F (20°C), according to a study by **Yonat Zwebner**, of the Hebrew University of Jerusalem, **Leonard Lee**, of Columbia, and **Jacob Goldenberg**, of the Interdisciplinary Center in Israel. And people in a warm room were generally willing to pay more for items than people in a cool room. Physical warmth activates emotional warmth, eliciting positive reactions to products and higher estimates of their worth, the researchers say.



DAILY STAT

To receive HBR's Daily Stat by e-mail, sign up at hbr.org/dailystat.



TALENT by Nathan R. Kuncel, David M. Klieger, and Deniz S. Ones

In Hiring, Algorithms Beat Instinct

You know your company inside out. You know the requirements of the position you need to fill. And now that HR has finished its interviews and simulations, you know the applicants, too—maybe even better than their friends do. Your wise and experienced brain is ready to synthesize the data and choose the best candidate for the job.

Instead, you should step back from the process. If you simply crunch the applicants' data and apply the resulting analysis to the job criteria, you'll probably end up with a better hire.

Humans are very good at specifying what's needed for a position and eliciting information from candidates—but they're very bad at weighing the results. Our analysis of 17 studies of applicant evaluations shows that a simple equation outperforms

human decisions by at least 25%. The effect holds in any situation with a large number of candidates, regardless of whether the job is on the front line, in middle management, or (yes) in the C-suite.

Moreover, in our research, conducted with Brian S. Connelly, of the University of Toronto, we looked at studies in which the people making the call were highly familiar with the organization and often had *more* information about the applicants than was included in the equation. The problem is that people are easily distracted by things that might be only marginally relevant, and they use information inconsistently. They can be thrown off course by such inconsequential bits of data as applicants' compliments or remarks on arbitrary topics—thus inadvertently undoing a lot of the work that went into establishing

parameters for the job and collecting applicants' data. So they'd be better off leaving selection to the machines.

Needless to say, there would be strong resistance to this idea. Surveys suggest that when assessing individuals, 85% to 97% of professionals rely to some degree on intuition or a mental synthesis of information. Many managers clearly believe they can make the best decision by pondering an applicant's folder and looking into his or her eyes—no algorithm, they would argue, can substitute for a veteran's accumulated knowledge. If companies did impose a numbers-only hiring policy, people would almost certainly find ways to circumvent it.

So we don't advocate that you bow out of the decision process altogether. We do recommend that you use a purely algorithmic system, based on a large number of data points, to narrow the field before calling on human judgment to pick from just a few finalists—say, three. Even better: Have several managers independently weigh in on the final decision, and average their judgments.

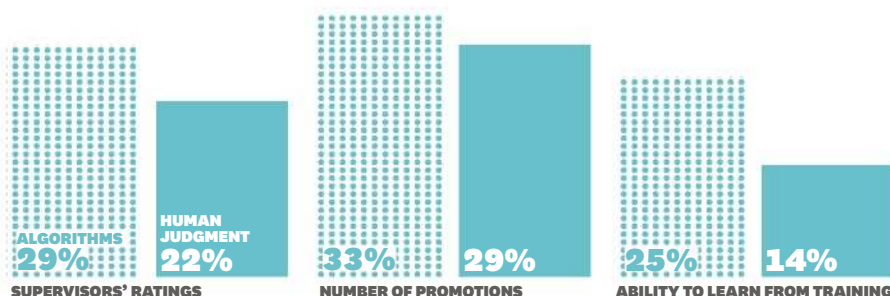
In this way, you can both maximize the benefits offered by algorithms and satisfy managers' need to exercise their hard-earned wisdom—while limiting that wisdom's harmful effects. ▀

HBR Reprint F1405C

Nathan R. Kuncel and **Deniz S. Ones** are professors of psychology at the University of Minnesota. **David M. Klieger** is a research scientist at the Educational Testing Service.

THE PREDICTIVE POWER OF NUMBERS

The bars below show the percentages of above-average employees (as gauged by three different measures) hired through algorithmic systems versus human judgment. The numbers represent improvement over chance.



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Defend Your Research

HBR puts some surprising findings to the test



Maryam Kouchaki is a research fellow at Harvard's Edmond J. Safra Center for Ethics.

In the Afternoon, the Moral Slope Gets Slipperier

The study: Harvard's Maryam Kouchaki and a colleague, Isaac H. Smith of the University of Utah, enlisted participants for what was ostensibly a decision-making experiment but was really a study of dishonest behavior. If subjects lied, they could earn more money. People's tendency to be untruthful was greater in the afternoon than in the morning, the researchers found. They attributed this result to the "psychological depletion" people experience as a day wears on, which makes them cognitively weaker.

The challenge: Could the stresses of an ordinary day really turn us all into liars after lunch? Should companies be extra vigilant about unethical behavior in the afternoon?

Dr. Kouchaki, defend your research.

Kouchaki: We replicated the finding in four experiments. It was clear: People were 20% to 50% more likely to be dishonest in the afternoon—we chose 3 to 6 PM for our afternoon sessions—because they were depleted of the resources they needed for self-control. Gradually increasing fatigue from unremarkable activities can lead to systemic moral failure. Even ethical people can't avoid it. In fact, the effect was strongest for people with a lower propensity for moral disengagement. That is, people who usually behave more ethically were the most susceptible to the negative consequences.

HBR: It's hard to believe that a day of meetings, phone calls, and other office work would be so tiring that it would push an employee into making an unethical choice.

People certainly have good days and bad days, and good days aren't very depleting. In fact, they can be energizing. If someone says your efforts are really appreciated or you successfully conclude a contract, you might feel so good that you suffer no cognitive depletion in the afternoon. But we looked at averages. On average, people tend to get tired out by the stresses and strains of the day. And a lot of people's days, in the current business climate, are very stressful.

Does that mean project managers shouldn't be allowed to fill out progress reports in the afternoon? That accountants should be kept away from the books?

It's important to be practical. I wouldn't advise companies to establish burdensome rules, but they should take deliberate action to avoid systemic pitfalls, and

there are simple ways to limit opportunities for immorality. For example, tasks with a moral component can be shifted to the morning and after breaks, when managers and employees are less depleted. At the very least, try to avoid scheduling those activities at the end of the day.

I still have trouble accepting that people are less depleted in the morning. If you gave me a moral choice before I've had my coffee, there's no telling what I might do.

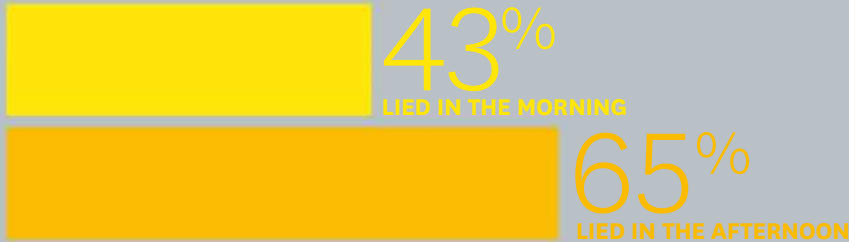
Of course, there are individual variations. "Morning people" tend to be more alert in the AM, and "evening people" perk up late in the day. You may be right—you may make your best moral choices after you've had your coffee, after lunch, or even late at night. But again, we're talking about averages.

If being depleted makes us revert to unethical behavior, doesn't that imply that humans are naturally unethical? Is everyone really corruptible given the right circumstances?

There is debate over that question in psychology. Some studies have shown that people default to their own self-interest; others show that they default to cooperative—in other words, ethical—behavior. What matters is that when self-interest conflicts with the motivation to be ethical, a person usually requires self-control in order to stick with the moral behavior. And when you've been thrown for a loop by your manager's criticism, a customer's complaint, or a call from the car dealership saying that replacing your side mirror

TIMING COUNTS

Average percentage of study participants who lied to obtain small monetary gains



is going to cost \$900, you may not have the mental resources to maintain your self-control. That applies especially to people who are generally the most morally engaged—people who pride themselves on doing the right thing.

But wouldn't the most moral people have the strongest motivation to behave ethically? Doesn't motivation count for something?

Yes, it does, and I agree that the finding about the effect on people who are the most morally engaged is counterintuitive. But the way to look at it is not so much that highly moral people are overly depleted by the day's activities, or that they are less motivated to be ethical, but that people who are low in moral engagement are less affected by depletion simply because they don't have much morality to lose. They are less likely to draw on self-regulatory resources to begin with.

So after a long, trying day, moral people become like their immoral colleagues.

Sort of. I should point out that in corporations, ethics or the lack thereof extends way beyond the obvious transgressions such as cooking the books, embezzling, and lying about credentials. Most jobs have an ethical component. You'd be hard-pressed to think of one that didn't. There are many situations in which we must make small moral choices. Should I leave that mess for someone else to clean up? Should I write my report in such a way as to make my coworker appear less competent than she really is? Should I conceal my own incompetence? And so on up the

ladder of ethical magnitude. By the way, when your psychological resources are depleted, you're less likely to even recognize that an intended action (or inaction) has moral implications.

Maybe we should all stop working after 3 PM.

In some cultures, afternoon breaks or siestas are an accepted part of the business day. In the West people tend to take a dim view of them, but breaks can serve the valuable purpose of restoring our depleted energy, positioning us to make better choices. Self-control is like a muscle—we need to restore its strength after use. Rest, relaxation, meditation, prayer, a snack—all those things can help restore us.

Or maybe we should just stop working so hard.

People do work hard. People I know in financial services and in Silicon Valley have told me how exhausted they are by the end of the day. Some even take pride in maintaining an almost nonstop intensity over the course of long days. They feel that working brutal hours is part of fulfilling the company's mission. That's fine, but they should know that factors beyond our control can influence our behavior. Exhaustion has costs, and one is a loss of control over the ability to make ethical choices. Are you really fulfilling your company's mission if you can't maintain your moral bearings? ▀

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Interview by **Andrew O'Connell**

PERSONAL



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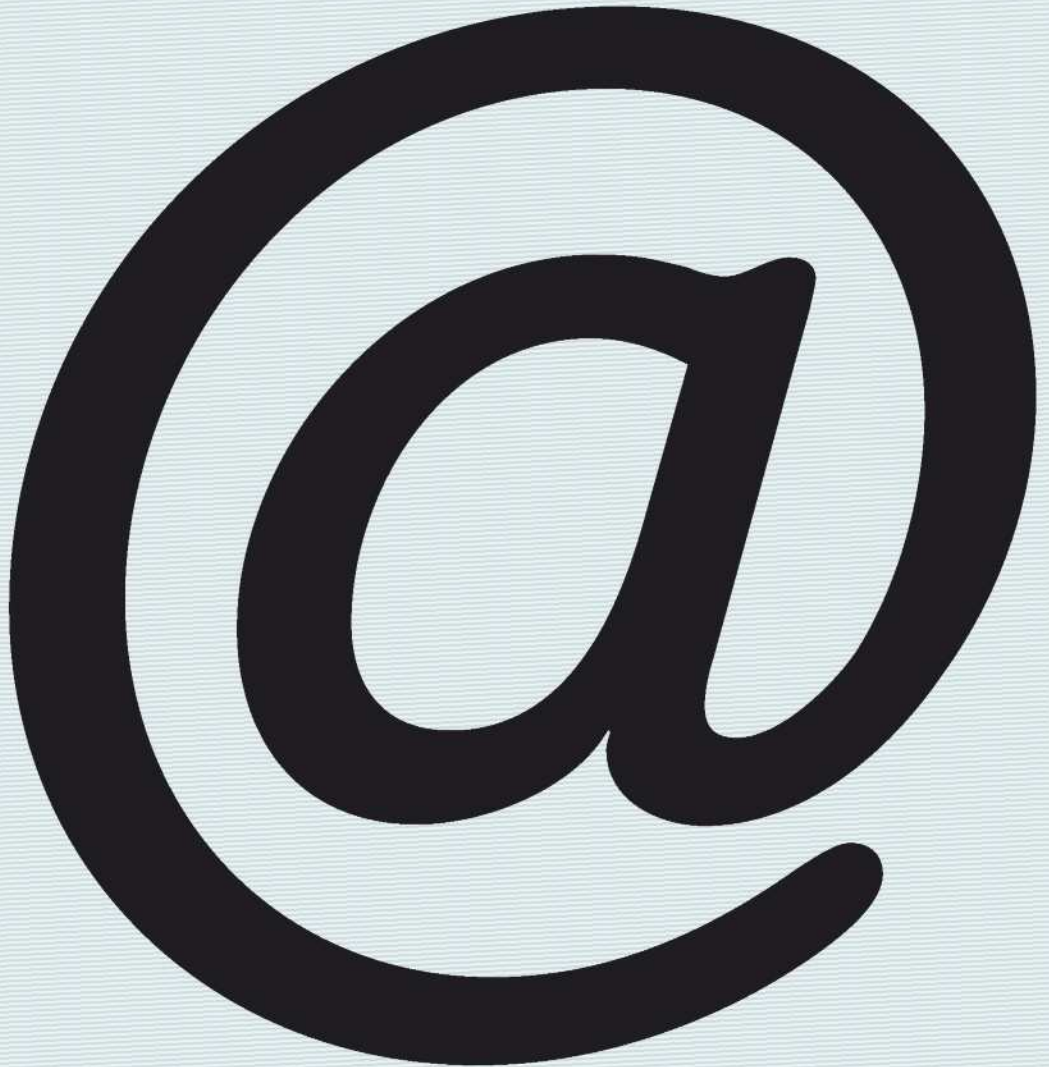


Vision Statement

Signs of the Times

User interface icons help us operate technology. Some are obvious; others seem illogical. One survived a near-death experience, one involves a Danish king, and others depict objects on their way to becoming relics. Here's a brief history of the lines and circles we find on our computers, on our phones, and in our software.

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THE IMMORTAL @

STILL KICKING AFTER 1,500 YEARS

GO AHEAD, COUNT HOW MANY times you press the @ key each day. It's arguably one of the most used symbols on our devices, required for both e-mail and tweets. But the "at" swirl, known as a "snail" in Italy and a "monkey tail" in the Netherlands, was almost relegated to typewriter oblivion.

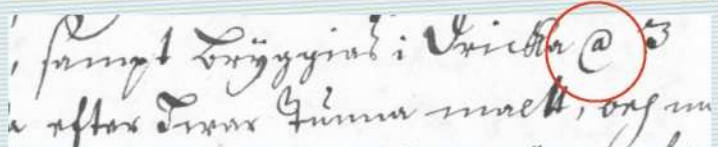
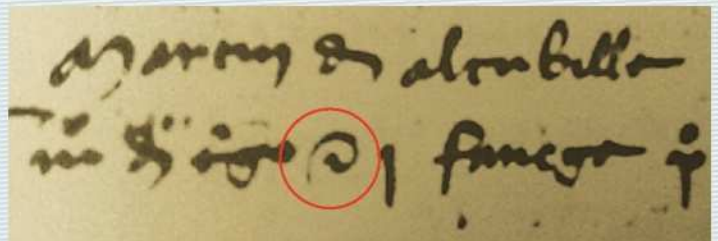
Before we get to that story, a brief history courtesy of *Smithsonian Magazine* and New York's Museum of Modern Art, which houses an entire @ collection: As far back as the sixth century, @ was used as a ligature to combine the letters of the Latin preposition *ad* (meaning "at" or "to") into one pen stroke. The symbol evolved over time and was used in Venetian trade dealings to indicate an amphora, a jar used by merchants as a unit of measure, and by

Spanish traders to mean *arroba*, another unit of measure. Eventually it came to mean "at the rate of," as in "12 peaches @ \$1.50—for a total of \$18."

By 1885 the symbol appeared on the American Underwood typewriter. It was a mainstay on keyboards for the next century, though it was used less and less over time.

Then in 1971 came Ray Tomlinson to pull @ out of its obscurity. Charged by the tech R&D company Bolt, Beranek and Newman with developing a way to send messages between computers on the ARPAnet, he decided to use the symbol in an early e-mail because it naturally implied location—and was already on keyboards. No one ever used it, so it was ready for a new role.

Top: an example of an Italian merchant's use of the @ symbol in 1536. Bottom: a use involving a wheat shipment from Castile, from the 1400s.



WHY DO THEY LOOK LIKE THAT?



POWER

During World War II, according to Gizmodo, engineers started using a binary system to label power buttons: 1 meant “on,” and 0 meant “off.” That system evolved into this icon, created by the International Electrotechnical Commission, which combines both numerals. The IEC intended it to mean “stand by,” but the Institute of Electrical and Electronics Engineers later put forward a different definition: “power.”



COMMAND

We all know this indicates a shortcut on the Mac keyboard, but why? It goes back to a decision by Steve Jobs in 1983 to make the Apple logo less ubiquitous. Until then, the key was marked by the Macintosh fruit, but Jobs felt it was overkill. (“We’re taking the Apple logo in vain!” he declared.) A member of the original Mac development team, Andy Hertzfeld, along with designer Susan Kare, wound up choosing this looped square (also known as St. John’s Arms) after leafing through a dictionary of symbols. In ancient times it was put on homes and utensils to ward off bad luck, and it’s still used as a “local attraction” sign across Northern Europe.



BLUETOOTH

The symbol for a short-distance wireless connection is derived from two runes representing the initials of King Harald Bluetooth, who ruled areas of Denmark and Norway in the 10th century. Bluetooth was famous for uniting the Danish tribes; his technological counterpart is a way to unite devices through the exchange of signals. The name was suggested by Intel’s Jim Kardach, who was part of a multicompany working group, and was intended to be temporary. But when the technology had to launch quickly, the group decided to go with “Bluetooth” until the marketing folks could come up with something better. They never did.



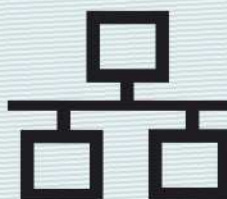
USB

This icon looks nothing like the tangled mass of cords near many of our computers, but it’s generally thought to be based on Neptune’s trident, with the circle, triangle, and square indicating different types of electronic devices that can be connected.



FIREWIRE

Used to indicate a way to rapidly transfer data between devices, the FireWire symbol was designed by Apple in 1995. The three prongs represent video, audio, and data.



ETHERNET

Designed by IBM’s David Hill, this icon resembles three connected computers, and that’s the point. It was intended to depict a network of multiple devices. As Gizmodo points out, the symbol looks a lot like Ethernet inventor Bob Metcalfe’s early sketches of the system.

THROWBACKS AND ANACHRONISMS

While the familiar symbols below may mean something tangible to one generation, they’re probably abstractions to another, because they depict items that have fallen into disuse. But as the history of @ demonstrates, there’s always the possibility of a second act.



TELEPHONE
HANDSET = CALL

c. 1950s



FLOPPY DISK = SAVE

c. 1970s



SLR CAMERA = CELL PHONE
CAMERA

c. 1960s



MANILA FOLDER = STORAGE

c. 1900s



CLIPBOARD
+ PAPER = PASTE

c. 1900s



RIBBON
MICROPHONE = SPEECH

c. 1950s



REEL-TO-REEL
TAPE = VOICE
MAIL

c. 1960s

Strategic Humor



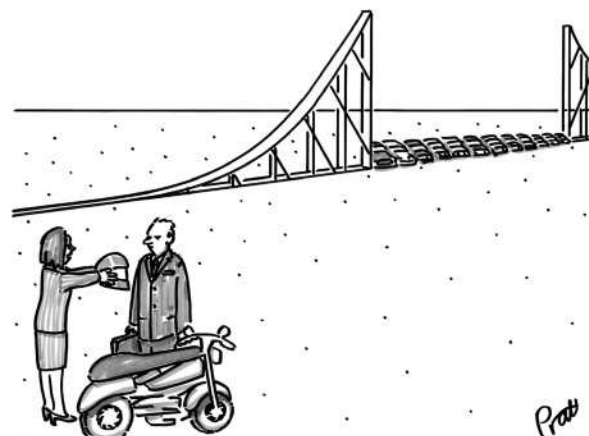
Steve Baw

I know you're swamped, Doug, but I need you to karaoke something for me ASAP.



John Caldwell

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Jeff Jordan is a partner at Andreessen Horowitz. He has been the president and CEO of OpenTable, the president of PayPal, and an SVP at eBay.

Leaving It All on the Field

Many folks make the observation that it's challenging to run a fast-growing technology start-up—and they're right. But the hardest part isn't scaling up the technology and the business model. It's growing your own capabilities as a leader.

I'd had very modest experience actually running a business when I got to eBay, in 1999. Most of the managing I'd done had been of functional groups within organizations—for example, as CFO of Disney Store. I'd done a six-month stint as CEO of Reel.com, the now defunct movie superstore that Amazon steamrolled when it expanded beyond books. But I'm not sure that experience counted—it's hard to claim that an enterprise that spent \$40 million on marketing to sell \$40 million in DVDs ever really was a business.

But Meg Whitman was willing to take a chance on me. I first met Meg at Disney, where she hired me into the strategic-planning group. She painted a very compelling picture of eBay's potential, and I quickly developed a point of view that as a business, eBay was as good as Reel.com was bad. I joined the company to manage a fledgling "services" unit and two direct reports—one of whom soon left to start a Baja Fresh franchise. But my hope was that growth would create bigger opportunities.

And did it ever! eBay was in hyper-growth mode. In 2000 Meg split it into two divisions and put me in charge of eBay North America. Then, in 2005, I moved over to head PayPal, which eBay had recently acquired, during its hypergrowth period. Seven years after joining eBay and managing one person, I was managing more than 5,000 people.

The most important discovery I made in this process was that growing with the business required the rapid acquisition of entirely new skills. The best analogy

If a world-class athlete uses a coach to improve, why should managers go it alone?



I have is a sports one: I started as a player and quickly had to become a coach, and then a general manager, before becoming something like a league commissioner.

However, it's tough to learn new skills when bigger and bigger groups of people are watching you make the stupid mistakes that are inevitable in any learning process. The best way to respond to this reality is to regard that scrutiny as a valuable asset. Milk all the input you can from it. Embrace those 360-degree evaluations and learn from your peers and direct reports. Find a mentor to guide you. And engage a coach to help you work through your issues and develop the skills you need. My friend John Donahoe was the one who introduced me to this last concept: He observed that if a world-class athlete like Tiger Woods (recall, this was many years ago) had swing and strength coaches, why should managers go it alone?

Becoming a great leader demands tremendous self-awareness. It requires an understanding of how others experience you, perceive you, and respond to you. It is an intensive journey. I've found these to be the keys to success: a hunger to learn and improve, a willingness to be vulnerable and share weaknesses as well as strengths, and a readiness to own up with your organization to shortcomings that you're working hard on improving.

One thing that made this learning process particularly difficult was that although it can be fulfilling to develop as a manager, I found it just more fun to be a player. I recall telling Sun's Scott McNealy late in my eBay tenure that I was becoming more effective but having less fun as the business reached scale. His response was along the lines of "You idiot, don't you realize that *your* job is to do the worst stuff so that everyone *else* in the company can be productive and happy?" 🍷

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ILLUSTRATION: CHRISTOPH HITZ

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Carter Roberts is the president and CEO of World Wildlife Fund.



Strategy Migration in a Changing Climate

I'll never forget my 25th Harvard Business School reunion, when Professor Howard Stevenson gave a lecture titled "Make Your Own Luck." To a packed room he revealed this truth: If you want big success, build a business that responds to big trends. When he prompted us, the audience volunteered the biggest ones in the world: China's growth, resource scarcity, and climate change. Then there was dead silence. Were any of our organizational strategies based on those?

World Wildlife Fund is not a business—it's the largest conservation network on the planet—but because of our mission, we had to strategize about at least one of those trends earlier than most. Our strategy involves allocating funds and engaging others to save the most consequential places upon which threatened species and humanity depend—places such as the Amazon, the Mekong, and the coral reefs and fisheries of the Pacific. Climate change affects our priorities because if environments change, animals and people need to adapt; they must move.

Forward-looking businesses are devising ways to mitigate financial and reputational risk and ensure a reliable supply of resources into the future.

For example, we have to figure out which coral reefs will survive the longest as ocean currents and temperatures change, and which hold the seed banks for future reefs. In forested zones, we need to map out corridors according to early indications of the dieback of trees and the migration of animals so that we don't lose those species.

But these days we're not alone in creating strategy with climate change in mind. Forward-looking businesses, too, are devising ways to mitigate financial and reputational risk and ensure a reliable supply of resources into the future. I know this be-

cause we partner with many of the world's biggest businesses, and I see the strategic focus they bring to the table. All those partnerships begin the same way, with a company convening its line leaders and looking squarely at long-term threats to the business. Go through that exercise, and I guarantee that climate change will come up. You'll quickly be reminded how much your business relies on predictable supplies and costs of natural resources and energy.

Usually the business commits quickly to a first step: identifying its unique footprint and setting targets to reduce it. We have done this too. WWF's footprint is all about travel and office space, so we've set goals to reduce employee travel and to retrofit our facilities to be LEED Platinum certified.

The second, more strategic step involves leveraging the company's unique assets to effect solutions. For companies with global supply chains, this often means wielding market influence. Walmart, Coca-Cola, and McDonald's now demand sustainability as a condition for doing business with them.

The third step is to forge unexpected alliances to take on even bigger goals. We're seeing more and more corporate-NGO relationships and more sectors joining forces in pre-competitive ways to achieve traceability and larger markets for sustainably produced goods. This last trend has created new strategic possibilities for WWF. As we saw companies trying to band together to confront climate change, we realized that we had unique assets to offer: sustainability expertise and innovations and a global reach and brand to facilitate collaborations. Working with such groups is the biggest strategic change we have made.

For us, and for many businesses, climate change doesn't only upend operations strategies. It creates "white space" opportunities to produce new value. It has obvious implications for the world's wildlife and humanity. But it forces businesses to migrate as well. The more wisely leaders plan their moves, the better luck—and lives—we'll all enjoy. 🐼

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**“I DECIDED
TO IMPROVE
MYSELF
TO MOVE THE
COMPANY FORWARD.”**

—Otonye Efebo
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EXCEEDED MY
EXPECTATIONS.
AND SO DID
THE DIVERSITY.”**

—Gabrielle Reijnen
Advanced Management Program 2012





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How I Did It...

The CEO of TJX on How to Train First-Class Buyers

by Carol Meyrowitz



THE IDEA

The retailer's business relies on hiring buyers who can be flexible and spot opportunities. Meyrowitz explains how the company is training its next generation.

PHOTOGRAPHY: JARED LEEDS

Fashion runs in my family. My father was in wholesale, and my mother is an artist. My dad was a very good businessperson, smart and empathetic. I grew up spending a lot of time in his store in New York, and I knew early on that business and working with people were my passions. Before and during college, where I majored in marketing and management, I was a part-time salesclerk at Fortunoff. After graduation I joined Saks Fifth Avenue in New York and then went to Bamberger's. In 1983 I moved to Boston to join first Hit or Miss, a chain of fashion stores that later became part of TJX, and then Chadwick's of Boston, my company's former catalog division. I filled several executive roles at TJX before becoming CEO, in 2007.

Today TJX operates seven retail brands in the United States, Canada, and Europe, and is the leading retailer of off-price apparel and home fashions in the U.S. and worldwide, with \$27.4 billion in sales in 2013. Our businesses offer a treasure-hunt shopping experience for great fashions, brands, and quality merchandise, all at amazing prices—that's how we define value. We operate very differently from traditional retailers. Each of our stores has a vast number of SKUs, offering customers nearly an entire mall within about 23,000 square feet of selling space. To find the right products, we source from more than 16,000 vendors around the globe. We don't want to be deep in any one product, and we don't try to carry every size or every style of an item. Customers come to our stores to find something surprising and special at an outstanding price—what we call the *wow* factor. When they find it, they feel compelled to buy it right away, because they know that particular item probably won't be there the next time they visit. Our merchandise assortments turn over very rapidly.

One key to driving our business is teaching and developing talent in our buying organization. Buyers must thoroughly understand consumer and fashion trends and the right value for every product we sell. They have to be opportunistic and extremely flexible. They have to develop relation-

ships with our vendors, which takes a lot of time. Becoming an outstanding buyer demands curiosity—and a lot of training. We have to teach our buyers how to select the right products, how to develop advanced negotiation skills, and how to communicate with vendors. Our long-term vision is to grow TJX revenue to \$40 billion and beyond. Even with more than 900 merchants in our buying organization, to achieve that level of growth we need to expand our base of buyers and develop a larger talent pool in every area of our business.

We've always been committed to teaching the off-price business to our merchants. Over the past several years we've formalized our teachings in an ambitious training program that we call TJX University, which I believe is one of the best training programs in retailing. In addition, everyone in management spends a great deal of time teaching and mentoring our people. For me, as CEO, it's an absolute priority. Yes, CEOs are responsible for short- and long-term strategy, to Wall Street, and to their boards; but teaching is crucial to reaching our goals, creating shareholder value, and continuing to drive the long-term success of the company.

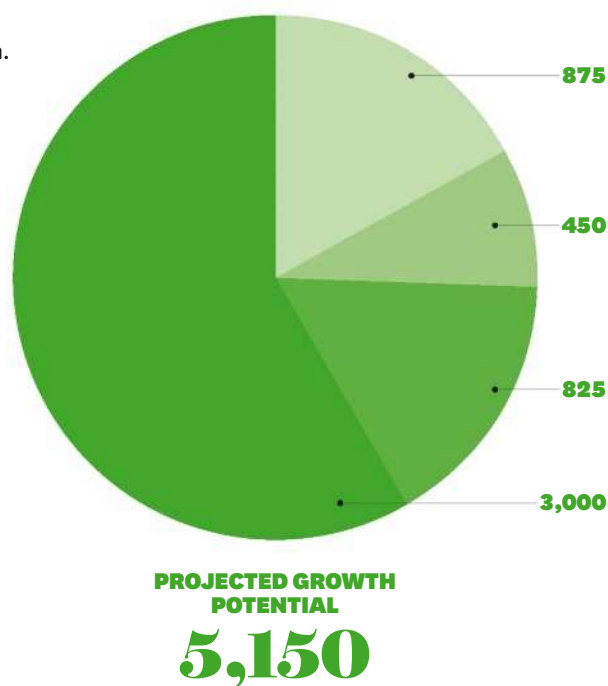
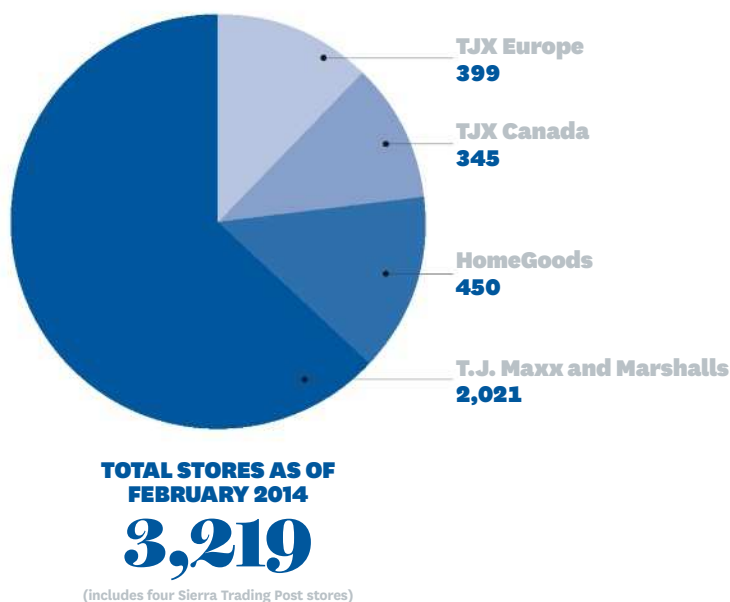
Committed to Developing Talent

We hire people for our buyer training program every year, many of them right out of college. Last year we hired more than 100 new associates, and before they completed their training, senior management had met every one of them. Some of their training time is spent in the classroom and some in stores—our own and our competitors'. Communication is imperative—we have no walls between departments in our stores, and we take the same approach in our organization. We want the way we do business—with integrity, honesty, and caring about one another—to continue to permeate our culture, and we speak to this within our program. We've developed financial training so that associates understand the ramifications of the buying decisions they will make. We are all teachers at TJX, so expe-

Becoming an outstanding buyer demands curiosity—and a lot of training.

Room to Grow

The company believes that the store count of its existing chains in the regions where it currently operates can increase by 60% over the long term. Here is a breakdown by division:



rienced buyers serve as mentors to future buyers. This one-on-one training is vital.

After associates complete the initial training, they spend a substantial amount of time in our planning organization, which allocates merchandise to stores. There are several additional steps before someone becomes a buyer, and our planners and future buyers often move around quickly between departments, our retail brands, and our locations. It's important that they be exposed to different parts of the business, and it's an advantage that we can move them across divisions both domestically and internationally to gain global experience.

We teach our future buyers to be entrepreneurial and empowered. We want them to feel confident that they can go into the market and seek out the best of the best. One day they may buy 600 items—or they may buy several million units. They need to be intelligent risk takers. Our buyers generally deal with a much broader universe of suppliers than buyers at traditional retailers do. They need to have great instincts and to be comfortable making big decisions.

Our model requires them to be very team-oriented. Let me give you an exam-

ple. Not long ago, a buyer for a particular product category decided that the offerings that season weren't very strong. So she opted to cut her own budget dramatically and have those dollars allocated to other categories that seemed more likely to drive sales. Think about that for a moment: How many buyers at a traditional retailer would voluntarily cut their own budgets? At TJX we reinforce sharing among our buyers by awarding bonuses on the basis of divisional and overall company performance rather than the performance of individual merchandise categories.

In retailing all buyers are going to make some mistakes—and learning from them is a key part of the training we provide. When they make mistakes, we want them to go back and examine their merchandise in the stores, and evaluate whether it originally felt right from a fashion, brand, quality, and price perspective. If something doesn't sell as well as we would like, we mark it down quickly and learn. But the buyers must continue to take intelligent risks.

We all recognize that buyers are part of the heart and soul of the organization. It's an advantage that I and many other people in senior management spent years in that

role. Because our buyers know that, and know that we feel passionate about the product, they can relate to us: We have credibility as teachers. I tell them that I was lucky to have a series of important mentors during my career, and we encourage them to develop those kinds of relationships. We have a casual, open culture here. I know most of our merchandise managers, and our senior executives are very close to our buyers.

Preparing Managers for Leadership

The biggest transition most successful buyers will face is moving from an individual contributor role into a leadership role. We do a lot of training to prepare for that transition. It can be jarring for someone who has been successful individually to suddenly be responsible for the performance of others, and making that work is not necessarily intuitive. As their leadership roles change—whether they move on to become merchandise managers or higher-level executives—we continue to train them to succeed.

In all our training we emphasize the importance of listening. Our business is about relationships, and you can never have a

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good relationship if you're not listening well. People who are too closed-minded or too linear can have a hard time succeeding as buyers and certainly as managers. Today many companies are shifting to analytics and trying to use data to scientifically predict what consumers will buy. I think that approach can be taken too far. I worry that if our company were to become too analytical and our buying process too automated, customers would no longer find the exciting and surprising products that create the treasure-hunt experience they expect every time they walk into one of our stores.

As we think about growing our company, we know we need to continue to develop and expand our talent pool ahead of our store growth. Hiring and training are important pieces of our plan to add talent, but retention is clearly very important too. It's not unusual in the retail industry for people to move around. I believe that one reason we hold on to our best people is TJX's culture. We are very family-friendly. We encourage people to balance work and home life—whatever that means for each individual. As a result, people tend to stay. Many of them have been here more than 30 years, as I have.

Teaching Is Key for Long-Term Success

My role as a teacher goes beyond our buyer training program—it's a part of everything I do. Whenever I walk into a meeting in any area of our company, I'm thinking, *What can I teach during this meeting?* Often, if someone asks me to make a decision or offer feedback, rather than announcing my view, I'll ask questions: Do you see the similarities between this and that? If we decide this way, what will be the ramifications five or 10 years from now?

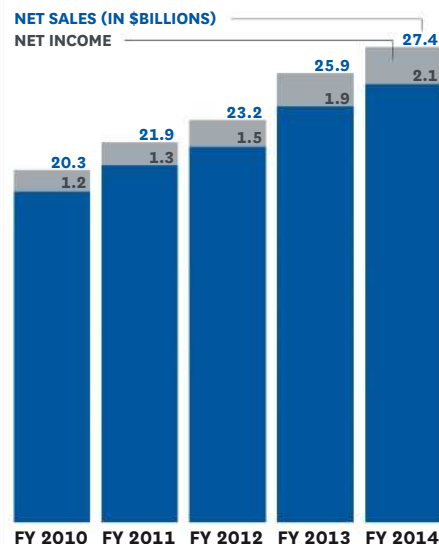
I try to guide the group to a decision that way. As a manager, I look for teachable moments every day. There is nothing I enjoy more than walking through our stores with a group of buyers, creating those moments. We talk about categories, and products, and our shoppers. Those are my favorite days as a leader.

TJX Facts & Financials

Founded 1976

Headquarters Framingham, Massachusetts

Employees approximately 191,000



A key to our success at TJX is our ability to recruit people who are curious and have tremendous passion, whether it's for merchandising, finance, store operations, logistics, human resources, information technology, real estate, marketing, or communications. As leaders, we must make teaching a priority and create an environment in which our associates can grow and learn every day.

As of 2014 TJX employed about 191,000 associates worldwide, and 58,000 of them were hired in just the previous five years. As CEO, I'd be very happy if five years from now I could tell you we had hired just as many more. Ultimately, our success, now and in the future, relies on our associates, who bring our business to life every single day for our customers. ▀

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Carol Meyrowitz has been the CEO of TJX since 2007.

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The Big Idea

BEWARE

THE



NEXT

BIG

THING

**BEFORE YOU
ADOPT A NEW
MANAGEMENT
IDEA, FIGURE
OUT IF IT'S
RIGHT FOR YOU.**

by Julian Birkinshaw

Where do new management practices come from? A few emerge fully formed from the minds of academics and consultants, but the vast majority come from corporate executives experimenting with new ideas in their own organizations. A case in point is the online retailer Zappos, which is replacing its traditional hierarchy with a self-organizing “operating system” known as holacracy.

Zappos’s experiment is getting a lot of attention. Like many management innovations before it, holacracy has an exciting zeitgeist appeal. At least a few executives in other firms are no doubt asking themselves, given today’s pressure to innovate and the changing nature of the workforce, is this the management idea of the moment? Could it give my company a competitive edge? What are the risks of trying to import it?

For decades, executives have been asking similar questions whenever management innovations burst onto the scene. Sometimes a new idea is so transformative that it can and often does propel a company to unprecedented levels of performance. Six Sigma and lean manufacturing have had that effect, galvanizing managers to improve quality and cut costs.

But importing ideas is risky. Even the most obviously useful theory or practice can go wrong if a company is unprepared to act on the insights it offers. And the value of most management ideas—and

where they might take you—is far from obvious. Is holacracy about empowering creativity or about tearing down authority? Can you envision “everyone” in your firm becoming a leader? Could your culture and organizational structure withstand such a dramatic change? The potential rewards of experimental concepts may be great for certain firms under certain circumstances, but for others, implementing them can be profoundly difficult or even destructive.

By taking deliberate steps to understand other companies’ innovations and how they relate to your own firm’s ways of thinking and functioning, you can better discern which experimental concepts are worth your while. With thoughtfulness and care, you can increase your chances of success when you do borrow ideas and, in the process, acquire new knowledge that will help improve your business in the long run.

It’s the Next Big Thing! (Or Is It?)

Any radical management innovation is quick to attract the attention of journalists, academics, and consultants. My studies, which I conducted with Stefano Turconi, a research associate at London Business School, reveal important benefits of that attention: Researchers and writers help companies codify or make sense of their ideas, and the visibility helps executives build support for their practices inside and outside the firm. The public discussion lets other companies know about the idea.

Publicity also has a downside: It raises the risk of hype, disappointment, and, sometimes, a repudiation of the idea. (See the sidebar “The Inevitable Hype Cycle.”) This magazine, for example, has debuted ideas that are now part of the management canon—and ideas that have been relegated to the dusty archive shelves. Your goal as a manager couldn’t be more different from those of the media and academia. You’re not trying to ride the next wave; you’re looking for the perfect wave. Popular opinion has less pertinence for you than an idea’s underlying concepts; indeed, it’s worth bearing in mind that foundational ideas often live on even after the practices associated with them have fallen from favor.

So how can managers effectively look beyond hype to make sense of the ever-changing landscape of management innovation? Broadly speaking, there

Idea in Brief

THE PROBLEM

Innovative management ideas that bubble up in other companies pose a perennial quandary: Should you attempt to borrow them, and if so, which ones and how? Even the most promising practices can fail if they're transplanted in the wrong firm.

THE SOLUTION

The best approach is to extract the essential principle from a management innovation—its underlying logic—by asking a series of questions about it, including: How is your company different from the originating firm? Are the innovation's goals worthwhile for your organization? Even if you decide the idea isn't right for you, the analysis can help you better understand your own management models and sharpen your practices.

are two ways to borrow from innovative companies: observe-and-apply, and extract the central idea. Each offers benefits, and each has its own challenges.

Observe-and-apply. This is the most obvious—and most commonly employed—approach for adopting new management ideas. It can and does work well, but only under limited sets of circumstances. One is when the observed practice easily stands alone or involves just a small constellation of supporting behaviors. GE's well-regarded succession-planning process is a good example—think of the smooth CEO transition from Jack Welch to Jeffrey Immelt in 2000. The process is supported by just a few specific actions, including creating transparency around the candidates and planning for the likely departures of those who don't get the job. These behaviors are relatively easy to copy; thus it's common to see GE-inspired succession

successfully with observe-and-apply. Similarly, companies that have unorthodox ways of doing things are much more likely to succeed in borrowing management innovations from other nontraditional firms: Radical ideas tend to take hold when they move with, rather than against, the tide.

For that reason, I give Zappos a good chance of succeeding as it implements holacracy, an idea that originated in a couple of Silicon Valley start-ups. Zappos has already shown a proclivity to go its own way; the company is known for such unorthodox practices as testing employees' loyalty by offering them cash to quit.

But all too often, the practices used successfully at one company prove disastrous at another. Consider GE's high-performance culture in the late 1990s. Employees generally recognized that the firm's strong focus on individual

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systems running well in other companies—for example, Walmart, GlaxoSmithKline, and Tesco.

Observe-and-apply also can work effectively when a company's management model or way of thinking is very similar to the originator's. Two software firms using the Agile development approach, for instance, are most likely employing many of the same techniques and a common language, so if one of them were to put a new management model into place, the other would be likely to replicate it suc-

cessfully. Accountability was first and foremost a means for honing corporate competitiveness in the marketplace. That understanding formed the backdrop for Welch's policy of ranking all employees within a given unit, rewarding and promoting the high performers, and firing (or providing remedial training for) the bottom 10%. The "rank and yank" system was emulated widely—but it often failed, particularly in organizations that hadn't developed cultures of productive internal competition.

Employees unaccustomed to the pressure frequently responded in dysfunctional ways. At Microsoft, for example, rank and yank ended up pitting employees against one another and diverting their attention from competing against other companies.

More recently, a number of firms in the UK and Europe have sought to emulate some of the British retailer John Lewis's well-publicized management practices: generous benefits packages, inclusion of employee input in the selection of top executives, and a rewards scheme giving frontline workers the same annual bonus (as a percentage of salary) as the company's chief executive. These practices have helped the retailer attain an industry-leading position in employee engagement and retention. But the ideas haven't been easy for shareholder-owned companies to adopt. For one thing, John Lewis's practices are all of a piece—they fit well with and reinforce one another. A strong focus on training and development, for example, supports the firm's highly selective hiring process and its emphasis on internal promotion. For another, they grew organically out of an employee-centric philosophy that goes back to the company's founding as a worker-owned partnership. Removed from that context, egalitarian policies often fail to win support from executives and shareholders.

Google's policy of allowing employees to spend 20% of their time on innovation is another favorite target of the observe-and-apply approach (even though the company has now placed limits on the program to prevent developers from going off in too many directions at once). The policy is appealingly simple, and managers in other organizations are understandably attracted by its promise of churning out breakthrough ideas. But when other firms adopt the practice, the results are typically underwhelming. Managerial attitude is one reason. Google's top executives (initially, at least) were enthusiastic champions of the concept; in many companies, such management support is harder to come by. Also, Google is blessed with hotshot developers eager to pursue their brilliant ideas; developers who are unfamiliar with open-ended experimentation often find that they don't know what to do with their innovation time. For these reasons, companies that emulate the policy typically terminate it before the 20% projects have been given a chance to succeed.

It hardly needs pointing out that failure can cause a great deal of damage. Adopting and then abandoning new practices can wear out an organi-

zation and reduce the likelihood that leaders will be able to bring about sustained improvement. That's why companies need to use the observe-and-apply method with care.

Extract the central idea. The hazards of importing a management innovation can be greatly minimized by extracting only the essential principles of a practice. Whatever differences may exist between the new organizational context and the original become less important, and fewer adjustments are required for the principles to take root.

UBS Wealth Management provides a good example. Following a successful merger in 2000, the financial services firm was seeking ways to grow. While brainstorming, the leadership team realized that one of the biggest obstacles to growth was the company's budgeting process—in particular, the

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The Inevitable Hype Cycle

time-consuming negotiations it required between headquarters and operating units. One executive suggested that the company could learn from the banking firm Svenska Handelsbanken, which had done away with budgeting a decade earlier. A group of senior managers visited the Swedish firm and saw that even though the companies' business models differed, it would be possible to borrow several of Handelsbanken's planning principles: less oversight from headquarters, greater frontline responsibility, and friendly competition among peer units. The team put together its own light-touch budgeting model, which was better suited to UBS's culture. For example, rather than adopt Handelsbanken's collective-bonus plan, which was based on group-wide performance, UBS linked bonuses to units' return-on-investment performance relative to that of peer groups.

Another example comes from GlaxoSmithKline. In the late 1990s, when the biotech revolution was threatening the pharmaceutical industry's R&D model, a few pharma firms, including Roche and Bristol-Myers Squibb, spent large sums buying biotech firms in order to gain access to their strong pipelines of innovative ideas. GSK tried something bolder: It studied the start-ups and determined that a key reason for their success was that they built cross-functional teams and focused them on specific therapeutic areas, a radical departure from pharma's traditions. GSK replicated the essence of that model internally, first creating semiautonomous Centres of Excellence for drug discovery and then breaking them down further into Discovery Performance Units, comprising 30 to 60 people, which were expected to seek funding for research projects from an internal investment board. While this model created some management challenges, it helped GSK retain its position as one of the world's top pharmaceutical companies and develop a drug pipeline that is among the industry's best.

Extracting the principle does not always work, of course, for a couple of reasons. First, identifying the underlying principle isn't a trivial matter. We are all prisoners of our own experience and cognitive biases. It's also often difficult to see the forest for the trees. During the 1990s, for example, Ford tried everything it could think of—automation, training, quality circles—to match Toyota's high standards on cost and quality. But it didn't succeed in its effort, because it overlooked the essence of Toyota's system: a belief in employees' problem-solving skills.

You can often gain valuable insight from radical management innovations, even if they fizzle out. And they do fizzle out. Nine-tenths of the approximately 100 branded management ideas I've studied lost their popularity within a decade or so. These include GE's Work-Out, W.L. Gore's lattice structure, Xerox's communities of practice, Thermo Electron's Spinout model, and Google's 20% innovation time policy.

Oticon's Spaghetti Organization is typical. In the early 1990s, soon after the Danish hearing-aid manufacturer began empowering employees to create their own development projects, the experiment was the subject of effusive praise. The company was inundated with queries from other businesses, and its executives hit the speaker circuit. But within a few years Oticon began to realize that its new-product portfolio lacked coherence and that too many resources were being wasted on projects that went nowhere.

Oticon's executives began shifting back toward a traditional structure, with project reviews becoming more formal and employees moving between tasks less frequently. Consultants began to cite the practice as a negative example, and in 2003 an academic analysis labeled the experiment a "partial failure."

Oticon's experience was more nuanced than the hype cycle suggests, however. Sales and profits increased during the early phases of the Spaghetti Organization, and when executives scaled back and used a modified form of the original practice, sales and profits continued to rise. Moreover, adopting the spaghetti structure served to shake things up—arguably an important step in the company's successful transformation, even though most of the practices introduced in the early 1990s have now disappeared.

To prevent the hype cycle from distracting you, look at how a management practice is really being used. Is it fulfilling its intended purpose in the company that originated it? That will help you ignore the talk of "breakthroughs" and "failures" and see what is simply useful about an idea.

A second, linked problem is that even when the underlying principle has been identified, it is often very difficult to put into use. When I was working with executives of a large investment bank to implement cross-functional collaboration, we easily identified the practice's enabling factors—common goals, transparent communication, and motivation to share knowledge—but implementation turned out to be impossible. The company's bonus culture, which focused on individual performance, was so deeply entrenched that it shaped everyone's behavior, and all attempts to encourage collaboration were doomed to fail.

Know Yourself Better

Regardless of the method you choose, corporate self-awareness is a powerful advantage. Not only can it help companies adopt the right innovations, but it can improve the planning and implementation of

any major initiative. The organizational learning that results is an added benefit: An experiment, even if it's eventually deemed unsuccessful, serves as a stimulus for revisiting your existing management models in light of the imported ideas. That new knowledge can help your firm sharpen and improve its current practices.

Consider Roche, the Swiss pharma company. (Disclosure: I've done consulting work for Roche.) A team of its executives were intrigued by the practice, in use at other companies, of open innovation. They decided to experiment with InnoCentive, a web platform on which companies can present technical challenges to thousands of would-be solvers. The executives posted a thorny technical problem that the R&D team had been struggling with, and they got back imaginative and useful ideas. Encouraged, they tried a few more.

But after 10 challenges, they found that the implementation of the results by Roche's scientists and engineers was inconsistent. Solutions to process-related problems tended to be readily implemented, but solutions to deeper scientific questions, for some reason, often were set aside and left unused. The experience helped the company see that there's no single best way to innovate; as a consequence, Roche moved toward establishing a portfolio of innovation approaches that could be matched with a range of challenges.

Or consider a software firm we studied that provides security services to clients in the financial, logistics, and public sectors. The founder had long been frustrated by the complexity and inflexibility of the project-planning methodologies commonly used in the software industry. Inspired by the auction-like models that recruitment consultancies use to find candidates, the founder came up with the idea of having employees bid to work on projects by touting their skills and interests.

The new model had benefits but also some flaws. Developers felt a loss of control: If they were passed over, they often didn't know why, and they had no way to further plead their cases. The firm decided to reduce the auction emphasis, shifting project-staffing decisions to a weekly meeting where everyone in the company was represented. Decisions took into account the needs not only of clients and project teams but also of individual developers. The company's new system still looks a lot like the tradi-

Four Kinds of Deviants

When you're deciding whether to import a management innovation from another firm, it's crucial to consider the source. Most innovations originate in companies that might be called "deviants," in that they don't follow the crowd. But not all deviants are alike. Be careful which firms you borrow from.

UPSTARTS

These are young, small, sometimes intentionally iconoclastic firms. Valve Corporation, a video game developer, expects employees to set their own hours, select their own projects, and migrate from team to team. In fact, employees are encouraged to move their desks to where the action is. Of course, it's easy to be unconventional when you're small. Don't expect an upstart's experiments to work in a larger, established company.

CERTIFIED WEIRD

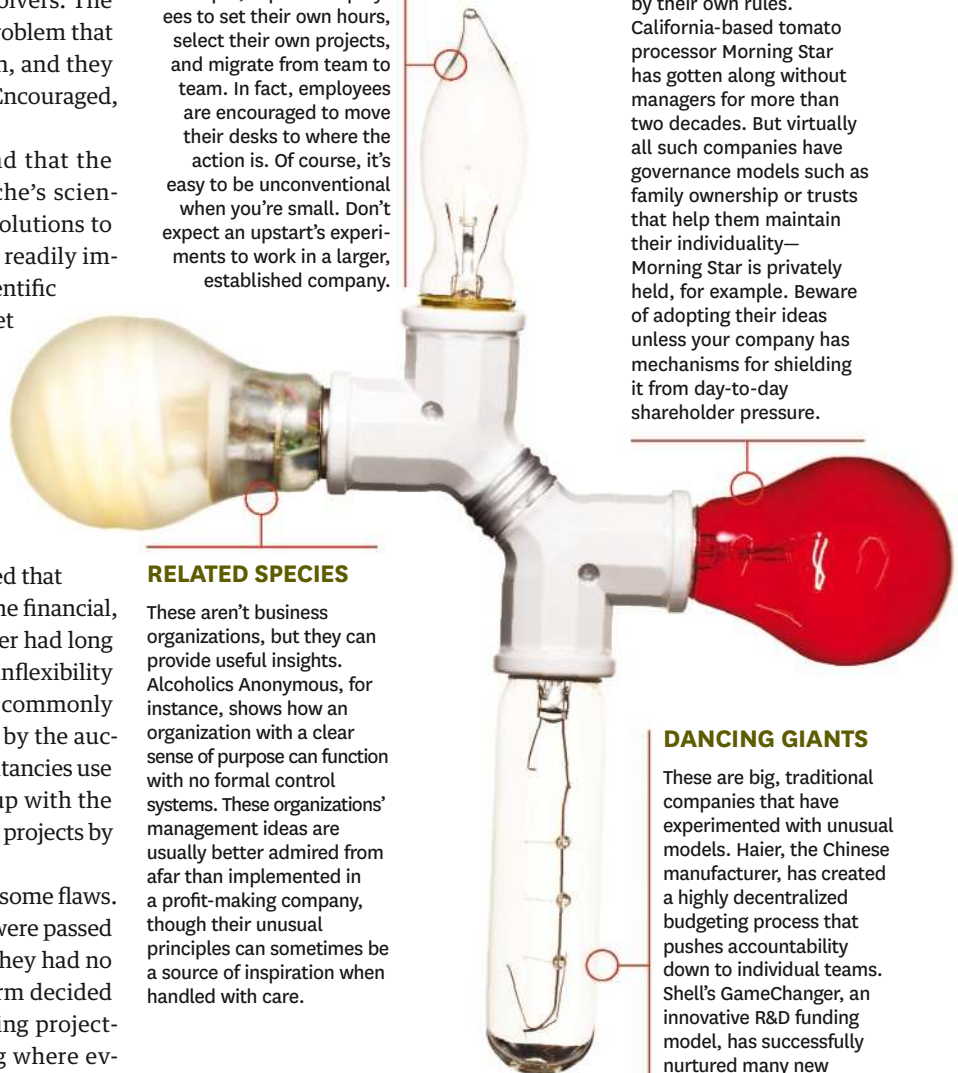
These are highly successful companies that, despite their large size, operate by their own rules. California-based tomato processor Morning Star has gotten along without managers for more than two decades. But virtually all such companies have governance models such as family ownership or trusts that help them maintain their individuality—Morning Star is privately held, for example. Beware of adopting their ideas unless your company has mechanisms for shielding it from day-to-day shareholder pressure.

RELATED SPECIES

These aren't business organizations, but they can provide useful insights. Alcoholics Anonymous, for instance, shows how an organization with a clear sense of purpose can function with no formal control systems. These organizations' management ideas are usually better admired from afar than implemented in a profit-making company, though their unusual principles can sometimes be a source of inspiration when handled with care.

DANCING GIANTS

These are big, traditional companies that have experimented with unusual models. Haier, the Chinese manufacturer, has created a highly decentralized budgeting process that pushes accountability down to individual teams. Shell's GameChanger, an innovative R&D funding model, has successfully nurtured many new technologies. Dancing giants' practices can be great sources of ideas, because they've already withstood shareholder scrutiny.



tional model used in many software companies, but it functions better, because of managers' new understanding of how to involve developers in the process.

Remember, when an experiment fails, resist the default response of shutting it down and pretending it never happened. Learning from failure is never glamorous or easy, but the lessons can be invaluable.

Moving Forward

Let's now look at the practical steps you should take in evaluating and importing management innovations.

Bide your time. The first thing to be done when another company's management experiment comes to your notice is nothing at all. It's wise to wait for a couple of years before you even consider borrowing an idea, either in whole or in part. Every new practice needs time to succeed or fail, and it's almost always a good idea to let the faddishness fade. Don't fall for the practice's charms too readily, but don't dismiss the idea entirely either, as the experimenting company might well be onto something.

Deconstruct the management model. Once you've decided to go ahead, you need to start by asking pointed questions to uncover the essence of the idea. During this stage, it's often useful to bring in outsiders who can offer a fresh perspective. Questions may include:

What is the underlying logic for this way of working? For example, HCL Technologies' system for providing open 360-degree feedback to its managers is based on a simple logic of transparency.

What unusual assumptions is the originating company making about human behavior or the workings of the market? Zappos's experiment with holacracy assumes that the benefits of self-organization outweigh its costs.

What inspiration or insights did the company draw on to come up with this model? GSK's internal market model for drug development was inspired by the successful venture-capital-backed biotech model in California.

Understand the hypotheses. Ideally, you'll find that the originating company is testing a simple hypothesis or two, whether it is aware of doing so or not. For example, if the practice you're analyzing is the posting of managers' 360-degree feedback results, the working hypothesis might be that the policy will make managers more accountable to their employees. If you're experimenting with giving people greater freedom to work from home, the

hypothesis might be that flexible working arrangements increase employees' level of engagement and, ultimately, their productivity.

Look for results. Next, analyze the originating company's results. Are the hypotheses supported, as social scientists would say? Does the posting of 360-degree feedback indeed result in greater accountability for managers? What are the practice's side effects? Talk to a few people at the company: Do you see evidence that managers are gaming the system? Keep digging deeper: Is more accountability to employees a good thing? If so, are there better, perhaps less disruptive, ways to achieve that end?

Make sure to look objectively at your own company. How is it similar to the originating firm? How is it different? Is your firm innovative or nontraditional enough for the new idea to take hold? Would your bureaucracy pose an insurmountable obstacle?

Experiment. If you see problems looming, be realistic. It's much easier to reconsider importing an idea before you've begun than to shut down an established initiative. But if you've done your due diligence and you're still excited about the idea, get to work creating an experiment of your own, with hypotheses, methods, and expected results: for example, "We hypothesize that by posting managers' 360-degree feedback online, we will see significant increases in employee satisfaction and retention rates within one year." Then you can begin collecting data to see whether the new practice is working and producing value for your firm.

IT'S EASY to get so swept up in the glamour of a new idea that the prospect of implementing it seems straightforward. But remember that successful management innovators typically had to work very hard, over many years, to put their new ideas into place. Applying those ideas inside your own company is likely to take even longer.

My years of researching management ideas show that despite the challenges, the rewards of adoption can be great. Not only do you stand to make a real difference in your company, but there's also a wealth of knowledge to be gained from experiments. If your company analyzes the implementation carefully, it's bound to acquire skills as well as greater levels of awareness, and this new understanding can significantly improve your business. ♥

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Leading the Focused Organization



ARTWORK Mark Dorf, *//_path/untitled 20*
2013, archival pigment print

*Are your employees fully
engaged in moving your
company forward?
Here's how to release
their untapped talent
and energy.*

*by W. Chan Kim and
Renée Mauborgne*

Blue Ocean Leadership



W. Chan Kim and **Renée Mauborgne** are professors of strategy and management at INSEAD and codirectors of the INSEAD Blue Ocean Strategy Institute, in Fontainebleau, France. They are the authors of *Blue Ocean Strategy* (Harvard Business School Press, 2005). See www.blueoceanstrategy.com.



It's a sad truth about the workplace:

Just **30%** of employees are actively committed to doing a good job. According to Gallup's 2013 *State of the American Workplace* report, **50%** of employees merely put their time in, while the remaining **20%** act out their discontent in counterproductive ways, negatively influencing their coworkers, missing days on the job, and driving customers away through poor service. Gallup estimates that the **20%** group alone costs the U.S. economy around half a trillion dollars each year.

What's the reason for the widespread employee disengagement? According to Gallup, poor leadership is a key cause.

Most executives—not just those in America—recognize that one of their biggest challenges is closing the vast gulf between the potential and the realized talent and energy of the people they lead. As one CEO put it, “We have a large workforce that has an appetite to do a good job up and down the ranks. If we can transform them—tap into them through effective leadership—there will be an awful lot of people out there doing an awful lot of good.”

Of course, managers don't intend to be poor leaders. The problem is that they lack a clear understanding of just what changes it would take to bring out the best in everyone and achieve high impact. We believe that leaders can obtain this understanding through an approach we call “blue ocean leadership.” It draws on our research on blue ocean strategy, our model for creating new market space by converting noncustomers into customers, and applies its concepts and analytic frameworks to help leaders release the blue ocean of unexploited talent and energy in their organizations—rapidly and at low cost.

The underlying insight is that leadership, in essence, can be thought of as a service that people in an organization “buy” or “don't buy.” Every leader in that sense has customers: the bosses to whom the leader must deliver performance, and the followers who need the leader's guidance and support to achieve. When people value your leadership practices, they in effect buy your leadership. They're inspired to excel and act with commitment. But when employees don't buy your leadership, they disengage, becoming noncustomers of your leadership. Once we started thinking about leadership in this way, we began to see that the concepts and frameworks we were developing to create new demand by converting noncustomers into customers could be adapted to help leaders convert disengaged employees into engaged ones.

Over the past 10 years we and Gavin Fraser, a Blue Ocean Strategy Network expert, have interviewed hundreds of people in organizations to understand where leadership was falling short and how it could be transformed while conserving leaders' most precious resource: time. In this article we present the results of our research.

Key Differences from Conventional Leadership Approaches

Blue ocean leadership rapidly brings about a step change in leadership strength. It's distinct from traditional leadership development approaches in several overarching ways. Here are the three most salient:

Focus on acts and activities. Over many years a great deal of research has generated insights into the values, qualities, and behavioral styles that make for good leadership, and these have formed the basis of development programs and executive coaching. The implicit assumption is that changes

Idea in Brief

THE PROBLEM

According to Gallup, only 30% of employees actively apply their talent and energy to move their organizations forward. Fifty percent are just putting their time in, while the remaining 20% act out their discontent in counterproductive ways. Gallup estimates that the 20% group alone costs the U.S. economy around half a trillion dollars each year. A main cause of employee disengagement is poor leadership, Gallup says.

THE SOLUTION

A new approach called blue ocean leadership can release the sea of unexploited talent and energy in organizations. It involves a four-step process that allows leaders to gain a clear understanding of just what changes it would take to bring out the best in their people, while conserving their most precious resource: time. An analytic tool, the Leadership Canvas, shows leaders what activities they need to eliminate, reduce, raise, and create to convert disengaged employees into engaged ones.

CASE IN POINT

A British retail group applied blue ocean leadership to redefine what effectiveness meant for frontline, midlevel, and senior leaders. The impact was significant. On the front line, for example, employee turnover dropped from about 40% to 11% in the first year, reducing recruitment and training costs by 50%. Factoring in reduced absenteeism, the group saved more than \$50 million in the first year, while customer satisfaction scores climbed by over 30%.

in values, qualities, and behavioral styles ultimately translate into high performance.

But when people look back on these programs, many struggle to find evidence of notable change. As one executive put it, “Without years of dedicated efforts, how can you transform a person’s character or behavioral traits? And can you really measure and assess whether leaders are embracing and internalizing these personal traits and styles? In theory, yes, but in reality it’s hard at best.”

Blue ocean leadership, by contrast, focuses on *what acts and activities leaders need to undertake* to boost their teams’ motivation and business results, not on *who leaders need to be*. This difference in emphasis is important. It is markedly easier to change people’s acts and activities than their values, qualities, and behavioral traits. Of course, altering a leader’s activities is not a complete solution, and having the right values, qualities, and behavioral traits matters. But activities are something that any individual can change, given the right feedback and guidance.

Connect closely to market realities. Traditional leadership development programs tend to be quite generic and are often detached from what firms stand for in the eyes of customers and from the market results people are expected to achieve. In contrast, under blue ocean leadership, the people who face market realities are asked for their direct input on how their leaders hold them back and what those leaders could do to help them best serve customers and other key stakeholders. And when people are engaged in defining the leadership practices that will enable them to thrive, and *those practices are connected to the market realities* against which they need to perform, they’re highly motivated to create the best possible profile for leaders and to make the new solutions work. Their willing cooperation maximizes the acceptance of new pro-

files for leadership while minimizing implementation costs.

Distribute leadership across all management levels. Most leadership programs focus on executives and their potential for impact now and in the future. But the key to a successful organization is having empowered leaders at every level, because outstanding organizational performance often comes down to the motivation and actions of middle and frontline leaders, who are in closer contact with the market. As one senior executive put it, “The truth is that we, the top management, are not in the field to fully appreciate the middle and frontline actions. We need effective leaders at every level to maximize corporate performance.”

Blue ocean leadership is designed to be applied across the three distinct management levels: *top*, *middle*, and *frontline*. It calls for profiles for leaders that are tailored to the very different tasks, degrees of power, and environments you find at each level. Extending leadership capabilities deep into the front line unleashes the latent talent and drive of a critical mass of employees, and creating strong distributed leadership significantly enhances performance across the organization.

The Four Steps of Blue Ocean Leadership

Now let’s walk through how to put blue ocean leadership into practice. It involves four steps:

1. See your leadership reality. A common mistake organizations make is to discuss changes in leadership before resolving differences of opinion over what leaders are actually doing. Without a common understanding of where leadership stands and is falling short, a forceful case for change cannot be made.

Achieving this understanding is the objective of the first step. It takes the form of what we call as-is



About the Spotlight Artist

Each month we illustrate our Spotlight package with a series of works from an accomplished artist. The lively and cerebral creations of these photographers, painters, and installation artists are meant to infuse our pages with additional energy and intelligence to amplify what are often complex and abstract concepts.

This month we feature the work of **Mark Dorf**, a photographer and digital artist who lives in Brooklyn, New York. In the series shown here, Dorf inserts digitized forms into natural settings to create what he’s called “a comparison of language.” More of his work can be seen at mdorf.com.

Leadership Canvases, analytic visuals that show just how managers at each level invest their time and effort, as perceived by the customers of their leadership. An organization begins the process by creating a canvas for each of its three management levels.

A team of 12 to 15 senior managers is typically selected to carry out this project. The people chosen should cut across functions and be recognized as good leaders in the company so that the team has immediate credibility. The team is then broken into three smaller subteams, each focused on one level and charged with interviewing its relevant leadership customers—both bosses and subordinates—and ensuring that a representative number of each are included.

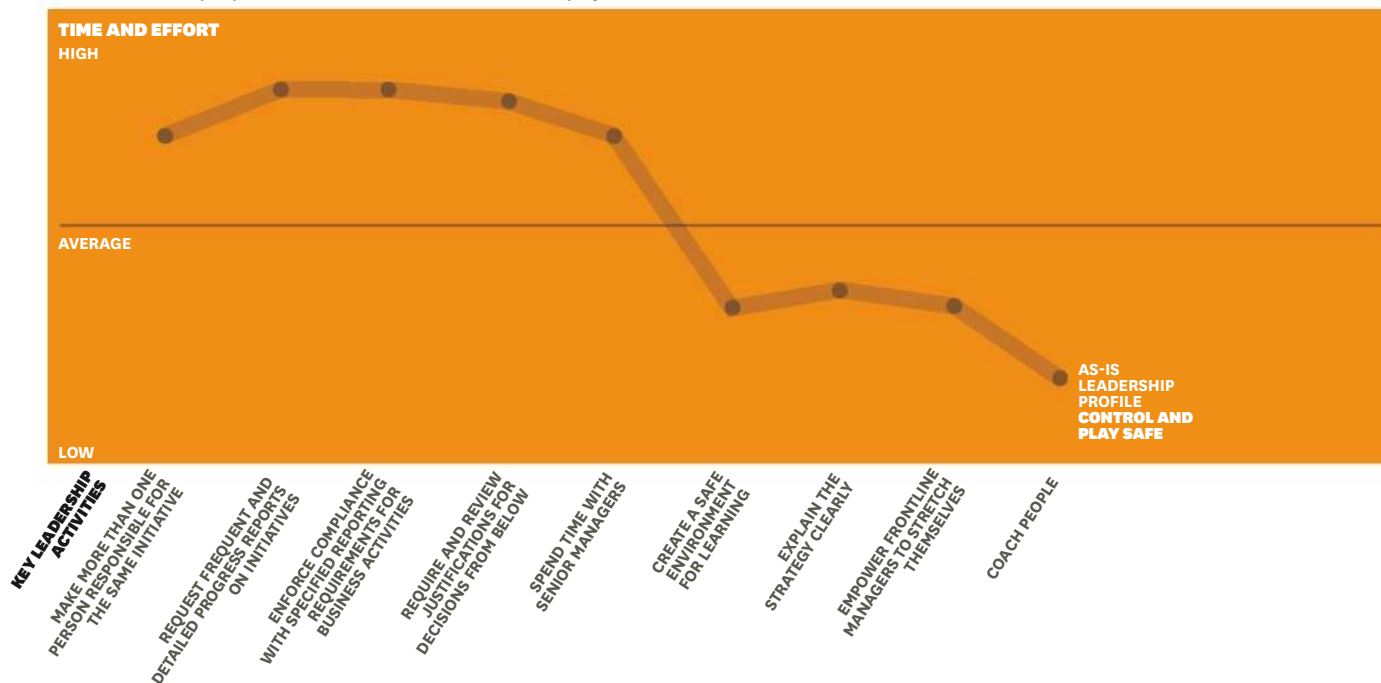
The aim is to uncover how people experience current leadership and to start a companywide conver-

sation about what leaders do and should do at each level. The customers of leaders are asked which acts and activities—good and bad—their leaders spend most of their time on, and which are key to motivation and performance but are neglected by their leaders. Getting at the specifics is important; the as-is canvases must be grounded in acts and activities that reflect each level's specific market reality and performance goals. This involves a certain amount of probing.

At a company we'll call British Retail Group (BRG), many interviewees commented that middle managers spent much of their time playing politics. The subteam focused on that level pushed for clarification and discovered that two acts principally accounted for this judgment. One was that the leaders tended to divide responsibility among people, which created uncertainty about accountability—and some internal competitiveness. The result was a lot of finger-pointing and the perception that the leaders were playing people against one another. The subteam also found that the leaders spent much of their time in meetings with senior management. This led subordinates to conclude that their leaders were more interested in maximizing political "face time" and spinning news than in being present to support them.

WHAT MIDDLE MANAGERS ACTUALLY DO

As-is Leadership Canvases show the activities that employees see leaders engaging in, and the amount of time and energy they think leaders spend on each. The canvas below, for middle managers at the retail company BRG, reveals that people viewed them as rule enforcers who played it safe.



After four to six weeks of interviews, subteam members come together to create as-is Leadership Profiles by pooling their findings and determining, based on frequency of citation, the dominant leadership acts and activities at each level. To help the subteams focus on what really matters, we typically ask for no more than 10 to 15 leadership acts and activities per level. These get registered on the horizontal axis of the as-is canvas, and the extent to which leaders do them is registered on the vertical axis. The cap of 10 to 15 prevents the canvas from becoming a statement of everything and nothing.

The result is almost always eye-opening. It's not uncommon to find that 20% to 40% of the acts and activities of leaders at all three levels provide only questionable value to those above and below them. It's also not uncommon to find that leaders are underinvesting in 20% to 40% of the acts and activities that interviewees at their level cite as important.

At BRG, the canvas for senior managers revealed that their customers thought they spent most of their time on essentially middle-management acts and activities, while the canvas of middle managers indicated that they seemed to be absorbed in protecting bureaucratic procedures. Frontline leaders were seen to be focused on trying to keep their bosses happy by doing things like deferring customer queries to them, which satisfied their desire to be in control. When we asked team members to describe each canvas in a tagline, an exercise that's part of the process, they labeled the frontline Leadership Profile "Please the Boss," the middle-manager profile "Control and Play Safe," and the senior manager profile "Focus on the Day-to-Day." (For an example, see the exhibit "What Middle Managers Actually Do.")

The implications were depressing. The biggest "aha" for the subteams was that senior managers appeared to have scarcely any time to do the real job of top management—thinking, probing, identifying opportunities on the horizon, and gearing up the organization to capitalize on them. Faced with firsthand, repeated evidence of the shortcomings of leadership practices, the subteams could not defend the current Leadership Profiles. The canvases made a strong case for change at all three levels; it was clear that people throughout the organization wished for it.

2. Develop alternative Leadership Profiles.

At this point the subteams are usually eager to explore what effective Leadership Profiles would look

THE BLUE OCEAN LEADERSHIP GRID

The Blue Ocean Leadership Grid is an analytic tool that challenges people to think about which acts and activities leaders should do less of because they hold people back, and which leaders should do more of because they inspire people to give their all. Current activities from the leaders' "as-is" profiles (which may add value or not), along with new activities that employees believe would add a lot of value if leaders started doing them, are assigned to the four categories in the grid. Organizations then use the grids to develop new profiles of effective leadership.

ELIMINATE

What acts and activities do leaders invest their time and intelligence in that should be eliminated?

RAISE

What acts and activities do leaders invest their time and intelligence in that should be raised well above their current level?

REDUCE

What acts and activities do leaders invest their time and intelligence in that should be reduced well below their current level?

CREATE

What acts and activities should leaders invest their time and intelligence in that they currently don't undertake?

like at each level. To achieve this, they go back to their interviewees with two sets of questions.

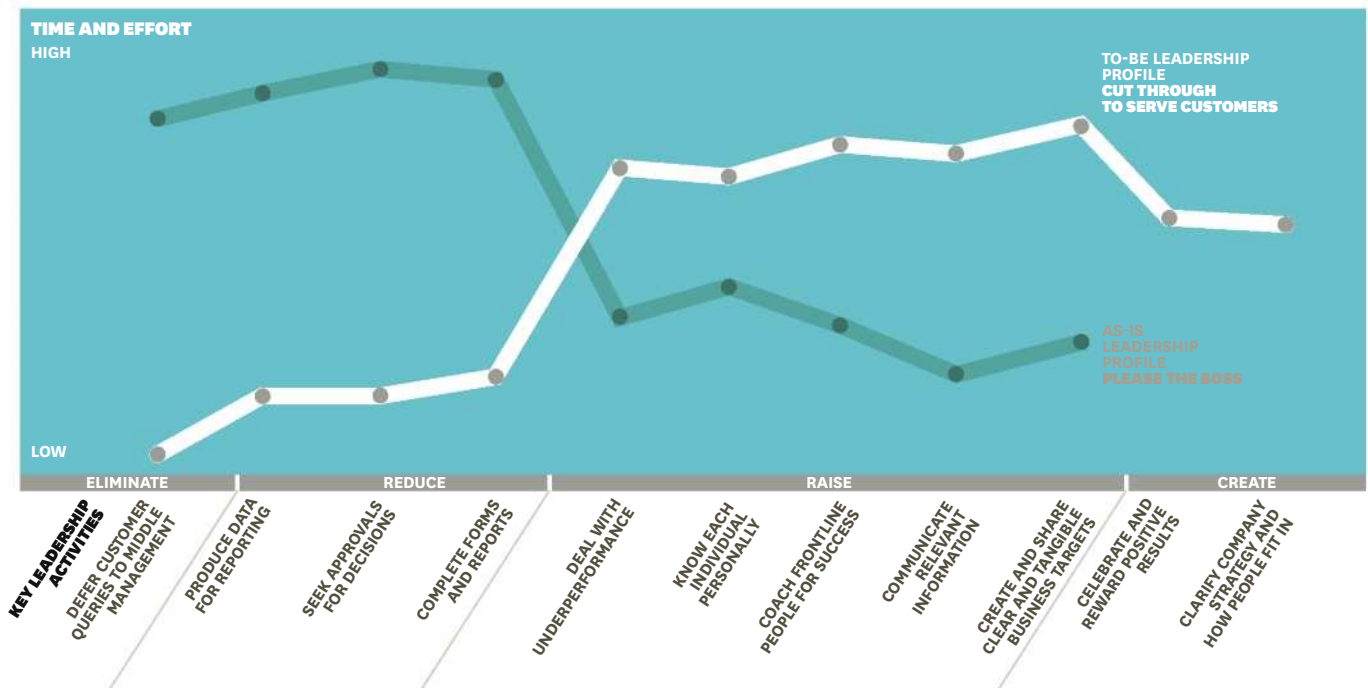
The first set is aimed at pinpointing the extent to which each act and activity on the canvas is either a cold spot (absorbing leaders' time but adding little or no value) or a hot spot (energizing employees and inspiring them to apply their talents, but currently underinvested in by leaders or not addressed at all).

The second set prompts interviewees to think beyond the bounds of the company and focus on effective leadership acts they've observed outside the organization, in particular those that could have a strong impact if adopted by internal leaders at their level. Here fresh ideas emerge about what leaders could be doing but aren't. This is not, however, about benchmarking against corporate icons; employees' personal experiences are more likely to produce insights. Most of us have come across people in our lives who have had a disproportionately positive influence on us. It might be a sports coach, a schoolteacher, a scoutmaster, a grandparent, or a former boss. Whoever those role models are, it's important

TO-BE LEADERSHIP CANVAS

FRONTLINE MANAGERS
SERVE CUSTOMERS, NOT THE BOSS

Current activities of BRG's frontline leaders vs. the activities employees think they should be doing



to get interviewees to detail which acts and activities they believe would add real value for them if undertaken by their current leaders.

To process the findings from the second round of interviews, the subteams apply an analytic tool we call the Blue Ocean Leadership Grid (see the exhibit by the same name). For each leadership level the interview results get incorporated into this grid. Typically, we start with the cold-spot acts and activities, which go into the Eliminate or Reduce quadrants depending on how negatively interviewees judge them. This energizes the subteams right away, because people immediately perceive the benefits of stopping leaders from doing things that add little or no value. Cutting back on those activities also gives leaders the time and space they need to raise their game. Without that breathing room, a step change in leadership strength would remain largely wishful thinking, given leaders' already full plates. From the cold spots we move to the hot spots, which go into the Raise quadrant if they involve current acts and activities or Create for those not currently performed at all by leaders.

With this input, the subteams draft two to four "to-be" canvases for each leadership level. These an-

alytic visuals illustrate Leadership Profiles that can lift individual and organizational performance, and juxtapose them against the as-is leadership profiles. The subteams produce a range of leadership models, rather than stop at one set of possibilities, to thoroughly explore new leadership space.

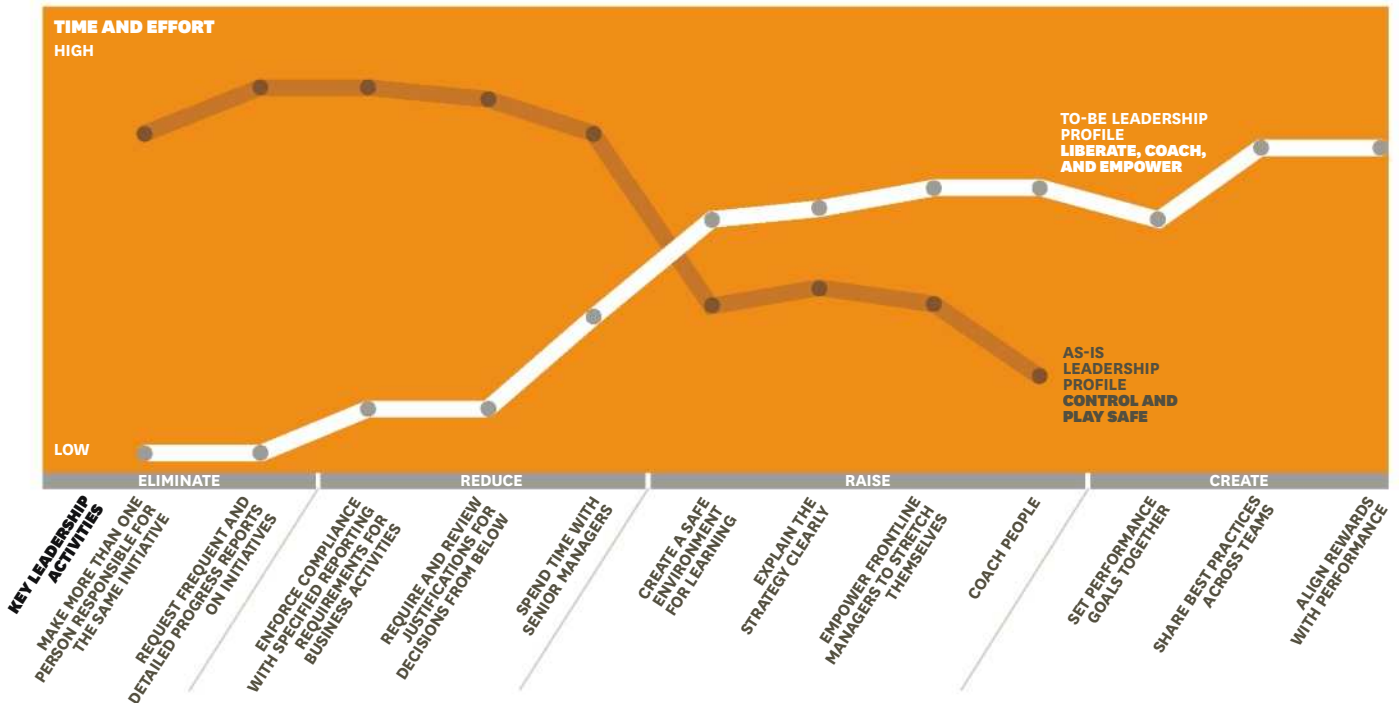
3. Select to-be Leadership Profiles. After two to three weeks of drawing and redrawing their Leadership Canvases, the subteams present them at what we call a "leadership fair." Fair attendees include board members and top, middle, and frontline managers.

The event starts with members of the original senior team behind the effort describing the process and presenting the three as-is canvases. With those three visuals, the team establishes why change is necessary, confirms that comments from interviewees at all levels were taken into account, and sets the context against which the to-be Leadership Profiles can be understood and appreciated. Although the as-is canvases often present a sobering reality, as they did at BRG, the Leadership Profiles are shown and discussed only at the aggregate level. That makes individual leaders more open to change, because they feel that everyone is in the same boat.

TO-BE LEADERSHIP CANVAS

MIDDLE MANAGERS MORE COACHING, LESS CONTROL

Current activities of BRG's midlevel leaders vs. the activities employees think they should be doing



With the stage set, the subteams present the to-be profiles, hanging their canvases on the walls so that the audience can easily see them. Typically, the subteam that focused on frontline leaders will go first. After the presentation, the attendees are each given three Post-it notes and told to put one next to their favorite Leadership Profile. And if they find that canvas especially compelling, they can put up to three Post-its on it.

After all the votes are in, the company's senior executives probe the attendees about why they voted as they did. The same process is then repeated for the two other leadership levels. (We find it easier to deal with each level separately and sequentially, and that doing so increases voters' recall of the discussion.)

After about four hours everyone in attendance has a clear picture of the current Leadership Profile of each level, the completed Blue Ocean Leadership Grids, and a selection of to-be Leadership Profiles that could create a significant change in leadership performance. Armed with this information and the votes and comments of attendees, the top managers convene outside the fair room and decide which to-be Leadership Profile to move forward on at each

level. Then they return and explain their decisions to the fair's participants.

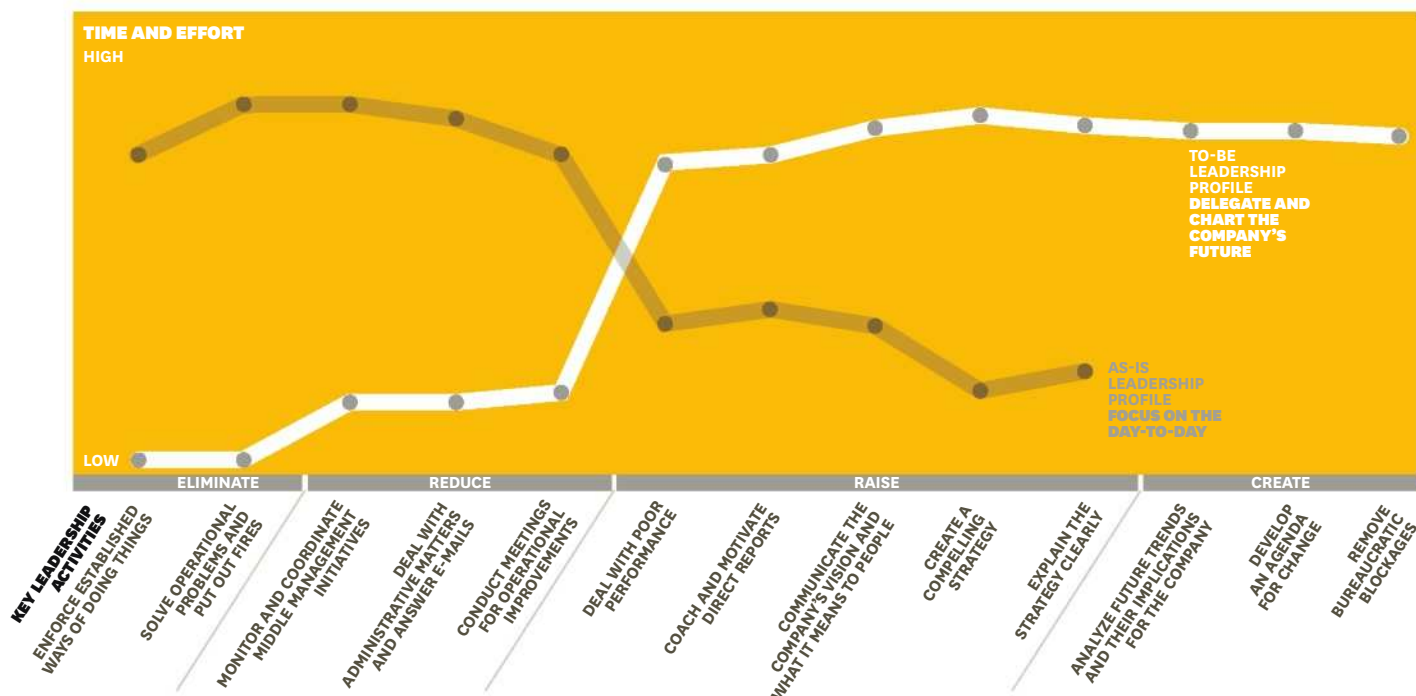
At BRG, more than 125 people voted on the profiles, and fair attendees greeted the three that were selected with enthusiasm. The tagline for frontline leaders' to-be profile (opposite page) was "Cut Through the Crap." (Sadly, this was later refined to "Cut Through to Serve Customers.") In this profile, frontline leaders did not defer the vast majority of customer queries to middle management and spent less time jumping through procedural hoops. Their time was directed to training frontline personnel to deliver on company promises on the spot, resolve customer problems, quickly help customers in distress, and make meaningful cross-sales—leadership acts and activities that fired up the frontline workers, were sure to excite customers, and would have a direct impact on the company's bottom line.

"Liberate, Coach, and Empower" was the tagline for middle management's to-be profile (above). Here leaders' time and attention shifted from controlling to supporting employees. This involved eliminating and reducing a range of oversight activities—such as requiring weekly reports on customer calls received and funds spent on office supplies—that sapped peo-

TO-BE LEADERSHIP CANVAS

SENIOR MANAGERS
FROM THE DAY-TO-DAY TO THE BIG PICTURE

Current activities of BRG's senior managers vs. the activities employees think they should be doing



ple's energy and kept frontline leaders at their desks. The profile also included new actions aimed at managing, disseminating, and integrating the knowledge of frontline leaders and their staff. In practical terms, this meant spending much more time providing face-to-face coaching and feedback.

The tagline for the to-be profile of senior management (above) was "Delegate and Chart the Company's Future." With the acts and activities of frontline and middle managers reset, senior managers would be freed up to devote a significant portion of their time to thinking about the big picture—the changes in the industry and their implications for strategy and the organization. They would spend less time putting out fires.

The board members who attended the leadership fair felt strongly that the to-be Leadership Profiles supported the interests of customers as well as shareholders' profit and growth objectives. The frontline leaders were energized and ready to charge ahead. Senior managers went from feeling towed under the waves by all the middle-management duties they had to coordinate and attend to, to feeling as

if they could finally get their heads above water and see the beauty of the ocean they had to chart.

The trickiest to-be Leadership Profile was middle management's. Letting go of control and empowering the people below them can be tough for folks in this organizational tier. But the to-be Leadership Profiles of both frontline and senior management helped clear the path to change at this level.

4. Institutionalize new leadership practices.

After the fair is over, the original subteam members communicate the results to the people they interviewed who were not at the fair.

Organizations then distribute the agreed-on to-be profiles to the leaders at each level. The subteam members hold meetings with leaders to walk them through their canvases, explaining what should be eliminated, reduced, raised, and created. This step reinforces the buy-in that the initiative has been building by briefing leaders throughout the organization on key findings at each step of the process and tapping many of them for input. And because every leader is in effect the buyer of another level of leadership, all managers will be working to change, know-

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ing that their bosses will be doing the same thing on the basis of input they directly provided.

The leaders are then charged with passing the message along to their direct reports and explaining to them how the new Leadership Profiles will allow them to be more effective. To keep the new profiles top of mind, the to-be canvases are pinned up prominently in the offices of both the leaders and their reports. Leaders are tasked with holding regular monthly meetings at which they gather their direct reports' feedback on how well they're making the transition to the new profiles. All comments must be illustrated with specific examples. Has the leader cut back on the acts and activities that were to be eliminated and reduced in the new Leadership Profile? If yes, how? If not, in what instances was she still engaging in them? Likewise, is she focusing more on what does add value and doing the new activities in her profile? Though the meetings can be unnerving at first—both for employees who have to critique the boss and for the bosses whose actions are being exposed to scrutiny—it doesn't take long before a team spirit and mutual respect take hold, as all people see how the changes in leadership are positively influencing their performance.

Through the changes highlighted by the to-be profiles, BRG was able to deepen its leadership strength and achieve high impact at lower cost. Consider the results produced just at the frontline level: Turnover of BRG's 10,000-plus frontline employees dropped from about 40% to 11% in the first year, reducing both recruitment and training costs by some 50%. The total savings, including those from decreased absenteeism, amounted to more than \$50 million that year. On top of that, BRG's customer satisfaction scores climbed by over 30%, and leaders at all levels reported feeling less stressed, more energized by their ability to act, and more confident that they were making a greater contribution to the company, customers, and their own personal development.

Execution Is Built into the Four Steps

Any change initiative faces skepticism. Think of it as the "bend over—here it comes again" syndrome. While blue ocean leadership also meets such a reaction initially, it counters it by building good execution into the process. The four steps are founded on the principles of fair process: engagement, explanation, and expectation clarity. The power of these principles cannot be overstated, and we have writ-

Leaders at all levels reported feeling less stressed, more energized by their ability to act, and more confident that they were making a contribution to the company.

ten extensively about their impact on the quality of execution for over 20 years. (See, for example, our article "Fair Process: Managing in the Knowledge Economy," HBR July–August 1997.)

In the leadership development context, the application of fair process achieves buy-in and ownership of the to-be Leadership Profiles and builds trust, preparing the ground for implementation. The principles are applied in a number of ways, with the most important practices being:

- **Respected senior managers spearhead the process.** Their engagement is not ceremonial; they conduct interviews and draw the canvases. This strongly signals the importance of the initiative, which makes people at all levels feel respected and gives senior managers a visceral sense of what actions are needed to create a step change in leadership performance. Here's a typical employee reaction: "At first, I thought this was just one of those initiatives where management loves to talk about the need for change but then essentially goes back to doing what they've always done. But when I saw that leading senior managers were driving the process and rolling up their sleeves to push the change, I thought to myself, 'Hmm...they may just finally mean it.'"

- **People are engaged in defining what leaders should do.** Since the to-be profiles are generated with the employees' own input, people have confidence in the changes made. The process also makes them feel more deeply engaged with their leaders, because they have greater ownership of what their leaders are doing. Here's what people told us: "Senior management said they were going to come and talk to people at all levels to understand what we need our leaders to do and not do, so we could thrive. And I thought, 'I'll believe it when someone comes knocking on my door.' And then they knocked."

- **People at all levels have a say in the final decision.** A slice of the organization across the three management levels gets to vote in selecting the new Leadership Profiles. Though the top managers have the final say on the to-be profiles and may not choose those with the most votes, they are required to provide a clear, sound explanation for their decisions in front of all attendees. Here's some typical feedback: "The doubts we had that our comments were just paid lip service to were dispelled when we saw how our inputs were figured into the to-be profiles. We realized then that our voices were heard."

- **It's easy to assess whether expectations are being met.** Clarity about what needs to change to move

The Siemens logo is displayed in a bold, teal, sans-serif font. It is positioned in the upper left corner of the page, above a horizontal white line that spans the width of the main image area.

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A large background image showing a man with a beard and glasses, wearing a dark blue short-sleeved shirt, standing in a brewery. He is surrounded by large, shiny metal fermentation tanks. One tank has a label that says 'FERMENTATION TANK' and 'CAP. 20 HL'. The man is looking towards the right and has his hand on a valve or pipe. The background is a red wall.

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Blue ocean leadership achieves a transformation with less time and effort, because leaders are not trying to alter who they are.

from the as-is to the to-be Leadership Profiles makes it simple to monitor progress. The monthly review meetings between leaders and their direct reports help the organization check whether it's making headway. We've found that those meetings keep leaders honest, motivate them to continue with change, and build confidence in both the process and the sincerity of the leaders. By collecting feedback from those meetings, top management can assess how rapidly leaders are making the shift from their as-is to their to-be Leadership Profiles, which becomes a key input in annual performance evaluations. This is what people say: "With the one-page visual of our old and new Leadership Profiles, we can easily track the progress in moving from the old to


the new. In it, everyone can see with clarity precisely where we are in closing the gap."

Essentially, the gift that fair process confers is trust and, hence, voluntary cooperation, a quality vital to the leader-follower relationship. Anyone who has ever worked in an organization understands how important trust is. If you trust the process and the people you work for, you're willing to go the extra mile and give your best. If you don't trust them, you'll stick to the letter of the law that binds your contract with the organization and devote your energy to protecting your position and fighting over turf rather than to winning customers and creating value. Not only will your abilities be wasted, but they will often work against your organization's performance.

Becoming a Blue Ocean Leader

We never cease to be amazed by the talent and energy we see in the organizations we study. Sadly, we are equally amazed by how much of it is squandered by poor leadership. Blue ocean leadership can help put an end to that.

The Leadership Canvases give people a concrete, visual framework in which they can surface and discuss the improvements leaders need to make. The fairness of the process makes the implementation and monitoring of those changes far easier than in traditional top-down approaches. Moreover, blue ocean leadership achieves a transformation with less time and effort, because leaders are not trying to alter who they are and break the habits of a lifetime. They are simply changing the tasks they carry out. Better yet, one of the strengths of blue ocean leadership is its scalability. You don't have to wait for your company's top leadership to launch this process. Whatever management level you belong to, you can awaken the sleeping potential of your people by taking them through the four steps.

Are you ready to be a blue ocean leader? 

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"Sometimes I wonder what it is exactly you're grooming me for."

CARTOON: P.C. VEY

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THINK BRAVELY™

Spotlight

Your Scarcest Resource

Time is money, but few organizations treat it that way.

*by Michael Mankins, Chris Brahm,
and Gregory Caimi*

MOST COMPANIES HAVE elaborate procedures for managing capital. They require a compelling business case for any new investment. They set hurdle rates. They delegate authority carefully, prescribing spending limits for each level.

An organization's *time*, in contrast, goes largely unmanaged. Although phone calls, e-mails, instant messages, meetings, and teleconferences eat up hours in every executive's day, companies have few rules to govern those interactions. In fact, most

ARTWORK Mark Dorf
 //_path/untitled 21, 2013
 archival pigment print



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Chris Brahm is a leader of Bain's Technology practice in the Americas and a partner in San Francisco.

Gregory Caimi is a partner in Bain's Technology and Organization practices based in San Francisco.

away from their families and friends, with little to show for it.

Most advice about managing time focuses on individual actions. Coaches tell us to reassert control over our e-mail, be far more selective about which meetings we attend, and so on. Such recommendations are worthwhile, but executives often discover that their best intentions are overwhelmed by the demands and practices of their organizations. The e-mails and IMs keep coming. So do the meeting invitations. Ignore too many and you risk alienating your coworkers or your boss. And if this steady flood of interactions is how your company gets its work done, you have little choice in the matter: You have to plunge in and swim your way to the other side as best you can.

Some forward-thinking companies have taken a different approach entirely. They expect their leaders to treat time as a scarce resource and to invest it prudently. They bring as much discipline to their time budgets as to their capital budgets. These organizations have not only lowered their overhead expenses; they have liberated countless hours of previously unproductive time for executives and employees, fueling innovation and accelerating profitable growth.

By the Numbers: How Organizational Time Is Squandered

Andy Grove, the former CEO of Intel, once wrote, "Just as you would not permit a fellow employee to steal a piece of office equipment, you shouldn't let anyone walk away with the time of his fellow managers." Of course, such thievery happens often, unintentionally. Meetings creep onto the calendar with no clear plan or priority. Initiatives crop up, demanding management attention.

But companies now have time-management tools that weren't available in the past. With Microsoft Outlook, Google Calendar, iCal, and other sched-

companies have no clear understanding of how their leaders and employees are spending their collective time. Not surprisingly, that time is often squandered—on long e-mail chains, needless conference calls, and countless unproductive meetings. This takes a heavy toll. Time devoted to internal meetings detracts from time spent with customers. Organizations become bloated, bureaucratic, and slow, and their financial performance suffers. Employees spend an ever-increasing number of hours

uling and messaging applications, they can track where managers and employees are spending the organization's collective time and thus investing its resources. The calendar data show how many meetings are occurring each week, month, or year and what kind they are. They show how many people are attending, by level and function within the organization. They even permit the tracking of certain organizational behaviors, such as parallel processing and double booking, that occur before, during, and after meetings. Of course, a company scrutinizing such data needs strong safeguards to protect employee privacy; nobody wants the feeling that Big Brother is watching his every move. But this information can paint a vivid and revealing picture of an organization's time budget.

Bain & Company, using innovative people analytics tools from VoloMetrix (on whose board Chris Brahm sits), recently examined the time budgets of 17 large corporations. Here's what we discovered:

Companies are awash in e-communications. As the incremental cost of one-to-one and one-to-

many communications has declined, the number of interactions has radically multiplied. Many executives now receive some 200 e-mails a day—more than 30,000 a year—and the increasing use of IM and crowdsourcing applications promises to compound the problem. (See the exhibit “The Dark Side of Metcalfe’s Law.”) If the trend is left unchecked, executives will soon be spending more than one day out of every week just managing electronic communications.

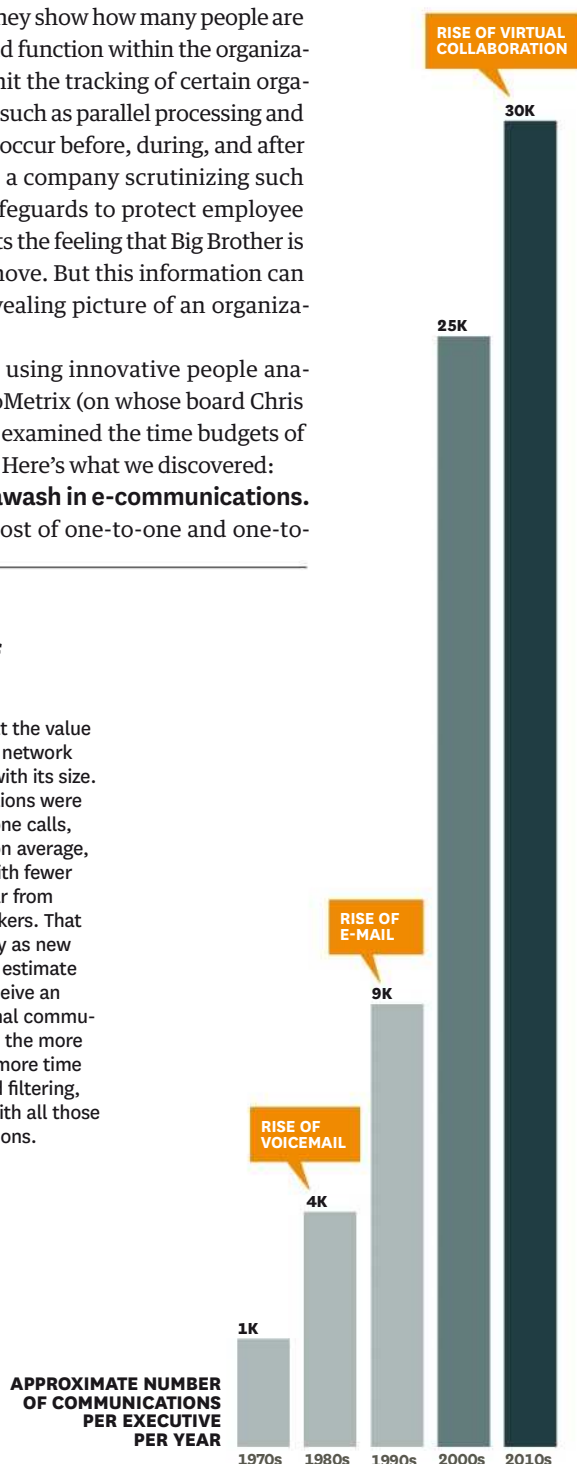
Meeting time has skyrocketed. Executives are also attending more meetings. That's partly because the cost of organizing them has dropped and partly because it's far easier than in the past for attendees to take part via telephone, videoconferencing, screen sharing, and the like. On average, senior executives devote more than two days every week to meetings involving three or more coworkers, and 15% of an organization's collective time is spent in meetings—a percentage that has increased every year since 2008. These gatherings proliferate: See the exhibit “Ripple Effects.”

Real collaboration is limited. Although the number of one-to-one and one-to-many interactions has risen dramatically over the past two decades, up to 80% of the interactions we reviewed took place within departments, not between businesses, across functions, or between headquarters and other parts of the company. As for the interactions that did extend beyond an individual unit, analysis of their content suggests that many of them involved the wrong people or took place for the wrong reason—that is, they were primarily for sharing information rather than gathering input or brainstorming alternatives. In short, more time spent interacting has not produced significantly more collaboration outside organizational silos.

Dysfunctional meeting behavior is on the rise. At most of the organizations we examined, participants routinely sent e-mails during meetings. At one company, in 22% of meetings participants sent three or more e-mails, on average, for every 30 minutes of meeting time. Furthermore, executives commonly double-booked meetings and decided later which one they would actually attend. Dysfunctional behaviors like these create a vicious circle: Parallel processing and double booking limit the effectiveness of meeting time, so the organization sets up more meetings to get the work done. Those meetings prompt more dysfunctional behavior, and on and on.

The Dark Side of Metcalfe's Law

Metcalfe's Law states that the value of a telecommunications network increases exponentially with its size. In the 1970s communications were largely limited to telephone calls, telexes, and telegrams; on average, executives had to deal with fewer than 1,000 of them a year from people other than coworkers. That number rose dramatically as new technologies spread: We estimate that executives today receive an average of 30,000 external communications every year. And the more senior an executive, the more time subordinates must spend filtering, organizing, and coping with all those messages and conversations.



Idea in Brief

THE PROBLEM

Executives often discover that their best time-management intentions are overwhelmed by the demands and practices of the organization.

THE SOLUTION

Some companies have taken a new approach. They treat time as a scarce resource and bring as much discipline to their time budgets as to their capital budgets.

THE DETAILS

The new approach follows eight practices:

- Setting selective agendas
- Using a zero-based time budget
- Requiring a business case for each initiative
- Simplifying the organization
- Delegating authority for time investments

- Standardizing the decision process
- Making time discipline organization-wide
- Using feedback to manage organizational load

These practices enable companies to curb time pressure on executives, lower costs, and boost productivity.

Formal controls are rare. At most companies no real costs are associated with requesting co-workers' time. If you want a meeting, your assistant merely sends out a meeting request or finds and fills an opening in the team's calendar. If you identify a problem in need of fixing, you convene a task force to study it and, most likely, launch an initiative to address it. Such demands on the organization's time typically undergo no review and require no formal approval.

There are few consequences. In a recent Bain survey, senior executives rated more than half the meetings they attended as "ineffective" or "very ineffective." Yet few organizations have established mechanisms for assessing the productivity of individual gatherings, not to mention clear penalties for unproductive sessions or rewards for particularly valuable ones.

It's hard to know exactly how much of this squandered time could be rescued. But our data suggest that most companies have an opportunity to liberate at least 20% of their collective hours by bringing greater discipline to time management.

Eight Practices for Managing Organizational Time

A handful of companies have learned how to attack this problem directly. They create formal budgets to manage organizational time as the scarce resource it is. They purposefully curb demands on executive time. And they push their people to improve the productivity of meetings and other forms of collaboration. We find that the following eight practices pay big dividends:

Make the agenda clear and selective. One hallmark of great leaders is their ability to separate the urgent from the merely important. They know that everyone must share an understanding of which activities are critical to success. We advocate

broadening that understanding to include time priorities. Not only should people be crystal clear about how to spend any extra time they may find in their day, but they should know what they can safely postpone or ignore.

Perhaps no other executive managed organizational time more effectively than the late Steve Jobs. Focus was a key to Apple's success. Each year Jobs took Apple's top 100 executives off-site for a planning retreat and pushed them to identify the company's leading 10 priorities for the coming year. Members of the group competed intensely to get their ideas on the short list. Then Jobs liked to take a marker and cross out the bottom seven. "We can only do three," he would announce. His gesture made it clear to everyone present what the company would and would not take on. Jobs cut through the noise and enabled Apple to invest the time of its top talent strategically, without dilution or waste. This dramatically accelerated the pace of innovation at the company and helped it become one of the largest in the world by market capitalization.

Create a zero-based time budget. Increasing workforce productivity requires that every organizational asset be carefully managed. Accordingly, many companies develop their operating and capital budgets from scratch each year, rather than taking the previous year's budget as a starting point. The best companies have zero-based time budgets as well. Their mind-set is: We will invest no additional organizational time in meetings; we will "fund" all new meetings through "withdrawals" from our existing meeting "bank."

Take Ford Motor Company. When Alan Mulally became Ford's CEO, in 2006, he discovered that the company's most senior executives spent a lot of time in meetings. In fact, the top 35 executives assembled every month for what they called "meetings week"—five days devoted to discussing auto programs and

Ripple Effects

THE TRUE COST OF AN EXCOM MEETING

EACH DOT REPRESENTS ONE MEETING

ONE WEEKLY MEETING ACCOUNTS FOR

7,000

HOURS A YEAR

UNIT MEETINGS

20,000

HOURS A YEAR

TEAM MEETINGS

63,000

HOURS A YEAR

PREPARATORY MEETINGS

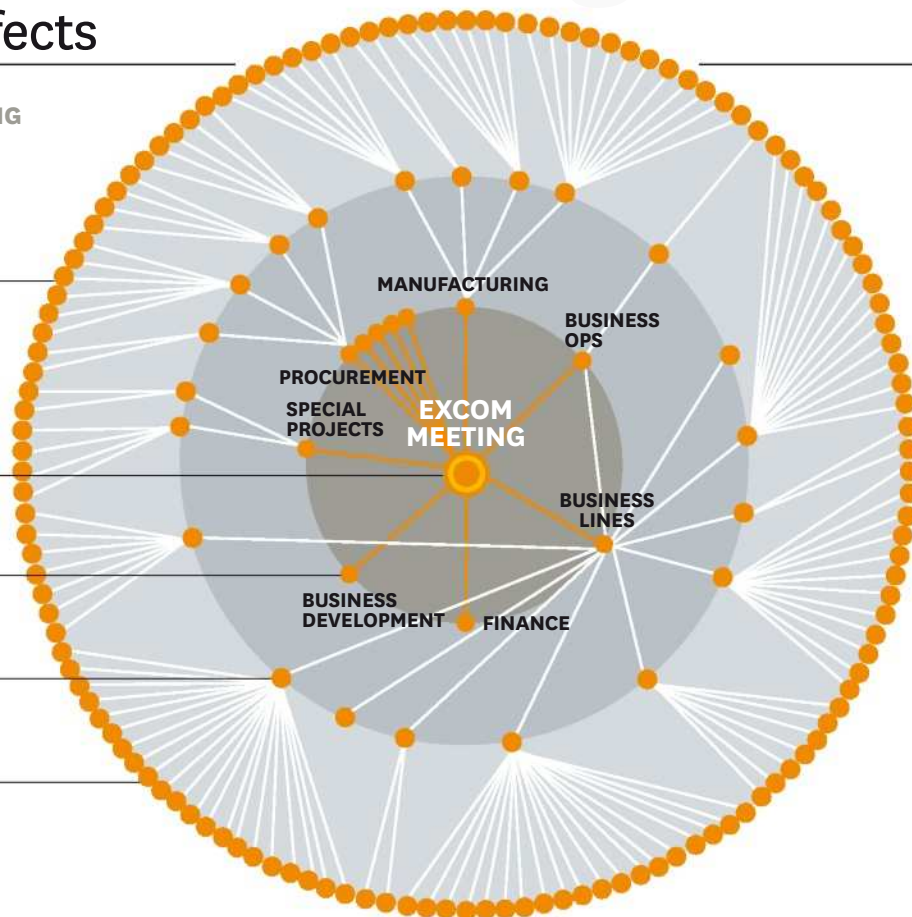
210,000

HOURS A YEAR

ANNUAL TOTAL

300,000

HOURS



reviewing performance. The direct and indirect costs of these sessions were significant—far more than the company could afford at the time.

In late 2006 Mulally asked his team to ruthlessly assess the efficiency and effectiveness of the company's regular meetings. It quickly eliminated all unnecessary ones and shortened those that were unduly long, which forced people to maximize output per minute of meeting time. The team also became much more selective about requests for new meetings. Although individual managers at Ford are not required to eliminate one meeting before another can be scheduled, the company's executives treat organizational time as fixed.

The centerpiece of Ford's approach is a weekly session called the Business Plan Review (BPR), which has replaced meetings week. It brings together the company's most senior executives in a focused four- to five-hour session each week to set strategy and review performance. Content for the session is standardized, reducing the extensive prep time previously required. The implementation of the BPR liberated thousands of hours at Ford, enabling the company to lower overhead costs at a time when rivals were seeking a government bailout. It also improved the quality and pace of deci-

A single meeting at the top can consume significant organizational time and money. At one company we worked with recently, the senior leadership team reviewed performance across the business in weekly meetings that directly consumed 7,000 person hours a year. In anticipation of those meetings, each excom member met with his or her unit—consuming an additional 20,000 hours a year. The units, in turn, looked to their teams to generate and cross-check critical information, usually in meetings, which ate up another 63,000 hours a year.

Preparatory meetings consumed a further 210,000 hours, bringing the total time accounted for by weekly excom meetings to 300,000 hours a year—which doesn't even include data collection and related work time.

sion making at the company, accelerating Ford's turnaround.

Require business cases for all new projects.

Companies often fall victim to "initiative creep," as seemingly sensible projects are added incrementally. Few if any of them are ever formally terminated. When Gary Goldberg became CEO at Newmont Mining, in March 2013, 87 initiatives were under way across the company, each demanding the time and attention of one or more members of Newmont's executive leadership team (ELT). Many of those initiatives, including efforts to improve mine safety or increase operational efficiency, were valuable. Others were more questionable in terms of Newmont's return on investment.

To gain control over initiative creep, Goldberg insisted that leaders develop formal business cases for all the company's ongoing and proposed projects. Before investing any time in one of them, the ELT had to review the case and approve the effort. Each case had to specify the precise economic benefit the initiative would deliver and also its total cost—including the time of executive leaders. Every initiative was required to have an executive sponsor, who was accountable for managing its progress and keeping it on budget.

These requirements had the desired effect. Many of the projects that had been under way when Goldberg took over were discontinued because no business cases were presented for them. Others were not approved. After less than three months, Newmont had scaled back the number of initiatives by a third and refocused its collective time on improving safety and operational efficiency.

Simplify the organization. The more management layers between the CEO and the frontline worker, the slower the information flows and decision making. All managers know this, even if many fail to act on their understanding.

What they often don't realize is that every additional supervisor adds costs well beyond his or her salary. Supervisors schedule meetings; those meetings require content that some people must generate and others must review; and each meeting typically spawns even more meetings. We have found that on average, adding a manager to an organization creates about 1.5 full-time-equivalent employees' worth of new work—that is, his own plus 50% of another employee's—and every additional senior vice president creates more than 2.6. The "caravan" of resources accompanying a manager or a senior executive, which may include an executive assistant or a chief of staff, adds further work and costs. (See the exhibit "The True Cost of Your Next Manager.") As the work piles up, time grows ever shorter.

Given the direct and indirect costs of most supervisors, one way to improve organizational efficiency is to simplify, starting at the top. In 2010 the University of California at Berkeley was facing tremendous financial pressure: The state legislature had cut \$150 million from Berkeley's budget in response to a mounting deficit. To safeguard the funds needed to preserve the university's reputation for excellence in teaching, research, and access, the administration had to find ways to streamline its cost structure.

In the summer of that year, Robert Birgeneau, then the university's chancellor, launched what was known as Operational Excellence. The program's objective was to dramatically improve the efficiency and effectiveness of the HR, finance, IT, and general administrative support provided to Berkeley's 14 colleges and more than 100 departments. By standardizing and simplifying work by function and sharing management across those units, Operational Excellence removed hundreds of unnecessary supervisors and freed up an enormous amount of organizational time. The restructuring and simpli-

fication has saved the university some \$120 million annually while enabling Berkeley to deliver more with less.

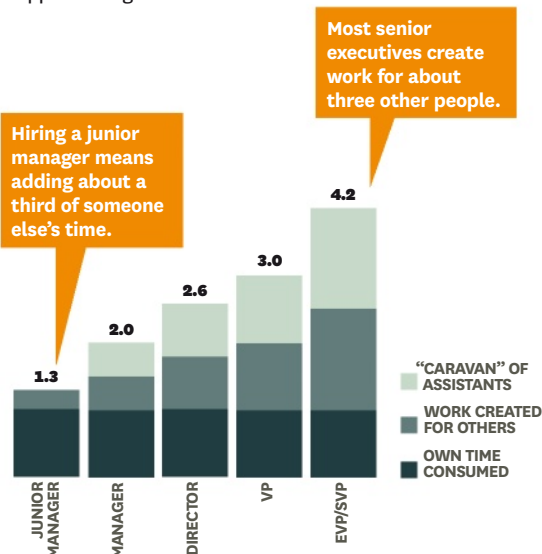
Clearly delegate authority for time investments. Most companies place few restrictions on who can organize a meeting. Decisions regarding how long the session should be, who should attend, and even whether participants must attend in person are frequently left up to low-level employees. The result: Costly meetings are scheduled without scrutiny.

For example, leaders at one large manufacturing company recently discovered that a regularly scheduled 90-minute meeting of midlevel managers cost more than \$15 million annually. When asked "Who is responsible for approving this meeting?" the managers were at a loss. "No one," they replied. "Tom's assistant just schedules it and the team attends." In effect, a junior VP's administrative assistant was permitted to invest \$15 million without supervisor approval. No such thing would ever happen with the company's financial capital.

At another manufacturing company we worked with recently, the leadership team took two simple steps to rein in unproductive meeting time. First, it

The True Cost of Your Next Manager

Every individual manager gets e-mail and meeting support from subordinates whose time should be factored into his or her job. As managers move up the hierarchy, their need for support staff grows.



Most companies place few restrictions on who can organize a meeting. The result: Costly meetings are scheduled without scrutiny.

reduced the default meeting length from 60 minutes to 30 minutes. Second, it established a guideline limiting meetings to seven or fewer participants. Any meeting exceeding 90 minutes or including more than seven people had to be approved by the supervisor of the convener's supervisor (two levels up). This cut the organizational time budget dramatically—by the equivalent of 200 full-time employees over a six-month period.

Standardize the decision process. At many companies, decision rights and processes are so ill defined that the organization devotes more time to managing the matrix than to decision making and execution. In such cases, establishing an organization-wide approach to decision making can greatly improve efficiency and rescue time for other purposes.

Woodside, Australia's largest independent oil and gas company, is illustrative. The company had been operating with a matrix structure for a number of years. Although the matrix was designed to foster greater collaboration across the company, decision authority and accountability were murky. As a result, the time spent coordinating across functions and business units was rising steeply, adding costs. In 2012 Woodside's leadership explicitly defined a set of operating principles that spelled out responsibilities, authority, and accountability for the business units, the functions, and the corporate center. A broad training program helped ensure that the company's top leaders understood the new principles and the implications for their units. A small network of navigators was established to help remove roadblocks and accelerate decision making across the company.

The impact of these changes has been profound. Given clarity on who is accountable for important decisions, executives at Woodside have streamlined how those decisions are made. A significant portion of the resulting saved time is now spent on efforts to improve execution and identify new growth opportunities.

Establish organization-wide time discipline.

No company can eliminate all meetings—they are essential for fostering collaboration and making critical decisions. But most companies can dramatically improve the quality of the meetings they do hold by establishing a few simple norms:

- *Agendas with clear objectives.* At Intel all meetings start with a clear purpose: to inform about topic A, discuss topic B, and decide topic C. As simple as

that may sound, the procedure focuses attendees on accomplishing the specified objectives.

- *Advance preparation.* At Ford, all materials for weekly Business Plan Reviews must be distributed in advance so that participants can review them before the meetings. That greatly reduces the time devoted to information sharing during BPRs.

- *On-time start.* Beginning each hour-long meeting only five minutes late costs a company 8% of its meeting time. Most management teams wouldn't tolerate 8% waste in any other area of responsibility.

- *Early ending, particularly if the meeting is going nowhere.* Steve Jobs used to "call an audible" when the productivity of a meeting at Apple started to decline or participants were unprepared. Some people considered his style abrupt, but he prevented the waste of time and money when sessions were unlikely to produce the desired outcome.

Provide feedback to manage organizational

load. It's said that we can't manage what we don't measure. Yet few organizations routinely track the critical variables affecting human productivity, such as meeting time, meeting attendance, and e-mail volume. Without such monitoring, it is hard to manage those factors—or even to know the magnitude of your organization's productivity problem. And without a baseline measure of productivity, it is impossible to set targets for improvement.

Many executives already review how much time they spend with various constituencies and on various issues, using just their own calendars. A few companies, including Seagate and Boeing, are experimenting with giving their executives feedback on the "load" they are putting on the organization in terms of meetings, e-mails, IMs, and so forth. At Seagate some senior managers participated in a program in which they routinely received reports quantifying their individual loads along with the average load generated by other executives at their level and in their function. This information, combined with guidelines from the top, encouraged them to modify their behavior.

TIME IS AN ORGANIZATION'S SCARCEST—and most often squandered—resource. No amount of money can buy a 25-hour day or reclaim an hour lost in an unproductive meeting. To get the most out of your employees, you must treat their time as precious, creating disciplined time budgets and investing effort to generate the greatest possible value for your company. ▀

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Spotlight

***How to close the gap
between knowing and doing***
by Heidi Grant Halvorson

Get Your Team to Do What It Says It's Going to Do

ARTWORK Mark Dorf, *///_path/untitled 32*
2013, archival pigment print



Heidi Grant Halvorson is the associate director of Columbia Business School's Motivation Science Center and the author of *Nine Things Successful People Do Differently* (Harvard Business Review Press, 2011).



SAY YOU'RE IN the early stages of planning your department's budget for the next fiscal year. Your management team meets to establish short-term priorities and starts to think about longer-term resource allocation. You identify next steps and decide to reconvene in a week—but when you do, you find that very little progress has been made. What's the holdup? Your to-dos probably look something like this:

Step 1: Develop a tentative budget for continuing operations.

Step 2: Clarify the department's role in upcoming corporate initiatives.

Those steps may be logical, but they're ineffective because they omit essential details. Even the first one, which is relatively straightforward, raises more questions than it answers. What data must the team gather to estimate requirements for continuing operations? Who will run the reports, and when? Which managers can shed additional light on resource needs? Who will talk to them and reconcile their feedback with what the numbers say? When will that happen? Who will assess competing priorities and decide which trade-offs to make? When?

Creating goals that teams and organizations will actually accomplish isn't just a matter of defining what needs doing; you also have to spell out the specifics of getting it done, because you can't assume that everyone involved will know how to move from concept to delivery. By using what motivational scientists call if-then planning to express and implement your group's intentions, you can significantly improve execution.

If-then plans work because contingencies are built into our neurological wiring. Humans are very good at encoding information in "If x, then y" terms and using those connections (often unconsciously) to guide their behavior. When people decide exactly when, where, and how they will fulfill their goals, they create a link in their brains between a certain situation or cue ("If or when x happens") and the behavior that should follow ("then I will do y"). In this way, they establish powerful triggers for action.

We've learned from more than 200 studies that if-then planners are about 300% more likely than others to reach their goals. Most of that research focuses on individuals, but we're starting to uncover a similar effect in groups. Several recent studies indicate that if-then planning improves team performance by sharpening groups' focus and prompting members to carry out key activities in a timely manner.

That's an important finding, because organizations squander enormous amounts of time, money, ideas, and talent in pursuit of poorly expressed goals. If-then planning addresses that pervasive problem by sorting out the fine-grained particulars of execution for group members. It pinpoints conditions for success, increases everyone's sense of responsibility, and helps close the troublesome gap between knowing and doing.

Overcoming Obstacles to Execution

Peter Gollwitzer, the psychologist who first studied if-then planning (and my postdoctoral adviser at New York University), has described it as creating "instant habits." Unlike many of our other habits, these don't get in the way of our goals but help us reach them. Let's look at a simple work example.

Suppose your employees have been remiss in submitting weekly progress reports, and you ask them all to set the goal of keeping you better informed. Despite everyone's willingness, people are busy and still forget to do it. So you ask them each to make an if-then plan: "If it's 2 PM on Friday, I will e-mail Susan a brief progress report."

Now the cue "2 PM on Friday" is directly wired in their brains to the action "e-mail my report to Susan"—and it's just dying to get noticed. Below their conscious awareness, your employees begin to scan the environment for it. As a result, they will spot and seize the critical moment ("It's 2 PM on Friday") *even when busy doing other things*.

Once the "if" part of the plan is detected, the mind triggers the "then" part. People now begin to execute the plan without having to think about it. When the clock hits 2 on Friday afternoon, the hands automatically reach for the keyboard. Sometimes you're aware that you are following through. But the process doesn't have to be conscious, which means you and your employees can still move toward your goal while occupied with other projects.

This approach worked in controlled studies: Participants who created if-then plans submitted weekly reports only 1.5 hours late, on average. Those who didn't create them submitted reports eight hours late. (See the sidebar "Reaching Your Personal Goals.")

The if-then cue is really important—but so is specifying what each team member will do and when (and often where and how). Let's go back to the budgeting example. To make it easier for your team to execute the first step, developing a tentative budget

for continuing operations, you might create if-then plans along these lines:

When it's Monday morning, Jane will detail our current expenses for personnel, contractors, and travel.

If it's Monday through Wednesday, Surani and David will meet with the managers in their groups to get input on resource needs.

When it's Thursday morning, Phil will write a report that synthesizes the numbers and the qualitative feedback.

When it's Friday at 2 PM, the management team will reassess priorities in light of Phil's report and agree on trade-offs.

Now there's less room for conflicting interpretations. The tasks and time frames are clearly outlined. Individuals know what they're accountable for, and so do the others in the group.

Does the if-then syntax feel awkward and stilted? It might, since it doesn't reflect the way we naturally express ourselves. But that's actually a good thing, because when we articulate our goals more "naturally," the all-important details of execution don't stick. The if-then construction makes people more aware and deliberate in their planning, so they not only understand but also complete the needed tasks.

Solving Problems That Plague Groups

Beyond helping managers get better results from their direct reports, if-then planning can address some of the classic challenges that groups face when working and making decisions together. Members often allow cognitive biases to obscure their collective judgment, for example, falling into traps such as groupthink and fixation on sunk costs. New findings suggest that if-then planning can offer effective solutions to this class of problems.

REACHING YOUR PERSONAL GOALS

Studies show that whether we're trying to complete work projects, save for retirement, obtain preventive health care, or lose weight, we fail to follow through on our commitments roughly 50% of the time (and that estimate is optimistic at best). Even when we know what we need to do—and we truly want and intend to do it—somehow it still doesn't happen.

Why? For lots of reasons, actually. We often miss

opportunities to act because we're too busy to notice them. Sometimes we lose confidence in our ability to carry out a project, so we push it to a mental back burner. Or we allow competing goals, motivations, or temptations to interfere.

If-then planning solves some of those problems and helps us execute despite others. Controlled experiments showed improved attainment of a variety of goals:

Idea in Brief

THE PROBLEM

When groups set goals, they tend to make sweeping statements and omit details essential to execution. So even if people know what needs to be done, they often don't deliver.

THE SOLUTION

Use if-then planning to express organizational and team goals. This creates an explicit motivational link between the ideal situation for execution and the desired behavior, producing a powerful trigger for action.

THE RESEARCH

Though most if-then research focuses on individuals, recent studies show a positive effect on team performance as well. If-then plans sharpen groups' focus and help members get things done.

Groupthink. In theory, teams should be better decision makers than individuals, because they can benefit from the diverse knowledge and experience that each member brings. But they rarely capitalize on what each person distinctively has to offer. Rather than offering up unique data and insights, members focus on information that they all possess from the start. Many forces are at work here, but primary among them is the desire to reach consensus quickly and without conflict by limiting the discussion to what's familiar to everyone.

Even when team members are explicitly told to share all relevant information with one another—and have monetary incentives to do so—they still don't. When people are entrenched in existing habits, paralyzed by cognitive overload, or simply distracted, they tend to forget to execute general goals like this.

Research by J. Lukas Thürmer, Frank Wieber, and Peter Gollwitzer conducted at the University of Konstanz demonstrates how if-then plans improve organizational decision making through increased information exchange and cooperation. In their studies, teams worked on "hidden profile" problems—which required members to share knowledge to identify

the best solution. For instance, in one study, three-person panels had to choose the best of three job applicants. Candidate A was modestly qualified, with six out of nine attributes in his favor—but every panel member knew about all six attributes. Candidate B also had six attributes in his favor, but every panel member knew about three of them, and each had unique knowledge of one additional attribute. Candidate C, the superior candidate, had nine out of nine attributes in his favor, but each panel member received information about only three attributes. To realize that Candidate C had all nine, the members of a panel had to share information with one another.

All the panels were instructed to do so before coming to a final decision and were told that reviewing the bottom two candidates' positive attributes would be a good way to accomplish this. Half the panels made an if-then plan: "If we are ready to make a decision, then we will review the positive qualities of the other candidates before deciding." (All study participants knew that the if-then plans applied specifically to them—and that the task needed to be done at that moment—so they didn't spell out the who and the when as they would have in real life.)

**TURNING IN
WEEKLY REPORT
PROMPTLY**IF-THEN
PLANNERS**1.5**

HOURS LATE

NON-
PLANNERS**8**

HOURS LATE

**MONTHLY
BREAST
SELF-EXAM**IF-THEN
PLANNERS**100%**NON-
PLANNERS**53%****EXERCISING
REGULARLY**IF-THEN
PLANNERS**91%**NON-
PLANNERS**39%****TAKING
MEDICATION
ON SCHEDULE**IF-THEN
PLANNERS**79%**NON-
PLANNERS**55%**

VIDEO Go to hbr.org to watch Heidi Grant Halvorson's video "How Successful People Reach Their Goals."

A panel that focused only on commonly held information would choose Candidate A—one of the inferior candidates—reasoning that he had six attributes as opposed to Candidate B's four and Candidate C's three. A panel whose members broke free of groupthink and successfully shared information would realize that in fact Candidate C had all nine attributes and choose him instead.

Not surprisingly, panels that made no if-then plan chose the superior candidate only 18% of the time. Panels with if-then plans were much more likely to make the right decision, selecting the superior candidate 48% of the time.

Clinging to lost causes. Further studies by Wieber, Thürmer, and Gollwitzer show that if-then plans can help groups avoid another common problem: committing more and more resources to clearly failing projects. As the Nobel Laureate Daniel Kahneman and his collaborator Amos Tversky pointed out decades ago, we tend to chase sunk costs—the time, effort, and money that we have put into something and can't get back out. It's irrational behavior. Once your team realizes that a project is failing, previous investments shouldn't matter. The best you can do is try to make smart choices with what you have left to invest. But too often we stay the course, unwilling to admit we have squandered resources that would have been better spent elsewhere. Groups, especially, tend to hang in there when it would be best to walk away, sometimes doubling down on their losing wagers. And the more cohesive they are, the greater the risk.

The dangers of identifying too much with one's team or organization are well documented: pressure to conform, for instance, and exclusion of atypical group members from leadership positions. When being a "good" team member is all that matters, groups often (implicitly or explicitly) discourage diverse ways of thinking, and they're loath to acknowledge their imperfections and errors of judgment. Hence the blind spot when it comes to sunk costs.

However, by taking the perspective of an independent observer, a group can gain the objectivity to scale back on its commitments to bad decisions or cut its losses altogether. In other words, by imagining that some other team made the initial investment, people free themselves up to do what's best in light of current circumstances, not previous outlays.

Wieber, Thürmer, and Gollwitzer hypothesized that if-then planning might be a particularly good tool for instilling this mind-set, for two reasons. First,

PLAN FOR THE UNEXPECTED

If-then planning is particularly useful for dealing with the inevitable bumps in the road—the unforeseen complications, the minor (and major) disasters, those moments when confusion sets in. Studies show that people who decide in advance how they will deal with such snags are much more resilient and able to stay on track.

Begin by identifying potential risks, focusing on those that seem the most likely. If the new project management software you purchased turns out to be buggy or the new review process you've implemented is too cumbersome, what will you do? If a major supplier goes out of business or has a factory fire, will you have sufficient reserves on hand?

To create contingency if-then plans, you identify what action to take should one of those risks turn into a reality. Suppose your business unit is market testing two new product lines. Rather than assume that at least one of them will merit further investment, make an if-then plan that allows for a less optimistic outcome. For instance: "When we have third-quarter sales figures in hand, Carol will calculate ROI and build a business case for next-phase funding."

studies showed that if-then plans helped individuals change strategies for pursuing goals, rather than continue with a failing approach. Second, additional research by Gollwitzer demonstrated that making if-then plans helped people take an outsider's view (they assumed the perspective of a physician when seeing blood in order to reduce feelings of disgust).

To test the effectiveness of if-then plans in scaling back group commitments, a study led by Wieber put subjects into teams of three and asked them to make joint investment decisions. Each team acted as a city council, deciding how much to invest in a public preschool project. During phase one the groups received information casting the project in a very positive light, and they allocated funds accordingly. In phase two they received both positive and negative information: Construction had begun and a local store was donating materials, but the building union wanted a substantial raise and environmental activists had voiced concerns about the safety of the land. Rationally, the teams should have begun to decrease funding at this point, given the uncertainty of the project's success. Finally, in phase three, the groups received mostly negative information: Oil had been found in the sand pit, parents were outraged, and fixing the problems would be time-consuming and expensive. Further scaling back was clearly called for.

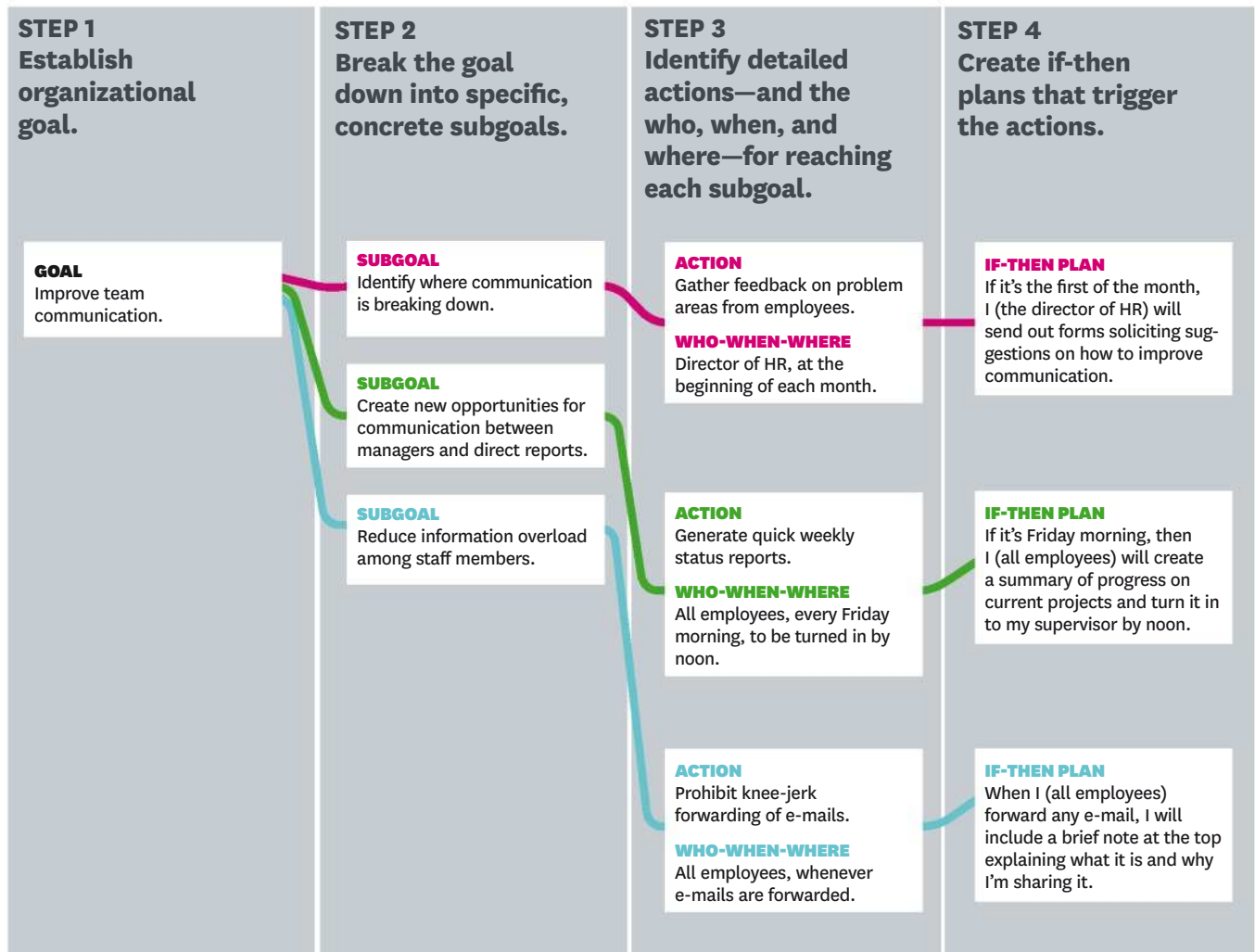
So what did the teams do? Those that had made no if-then plans showed the typical pattern of commitment. They slightly increased the percentage of budget allocated to the project from phase one to phase three. In contrast, teams with if-then plans ("If we make a decision, we will take the perspective of a neutral observer that was not responsible for any prior investments") reduced their investments from phase one to phase three by 13%, on average.

WHEN TEAMS OR ORGANIZATIONS set goals, they tend to use sweeping, abstract language. But it's easier to frame your plans in if-then terms if you first break them down into smaller, more concrete subgoals and then identify the actions required to reach each subgoal. (See the exhibit "How to Design If-Then Plans.")

If you were trying to improve your team's communication, for example, you might set "Reduce information overload among staff members" as one subgoal. And after some brainstorming, you might decide to accomplish that by asking members who are forwarding any e-mail to explain up front why they're doing so. (The rationale: People will be more selective about what they pass along if they have to

How to Design If-Then Plans

This flowchart shows how to translate a high-level ambition (in this instance, better communication) into detailed plans for execution.



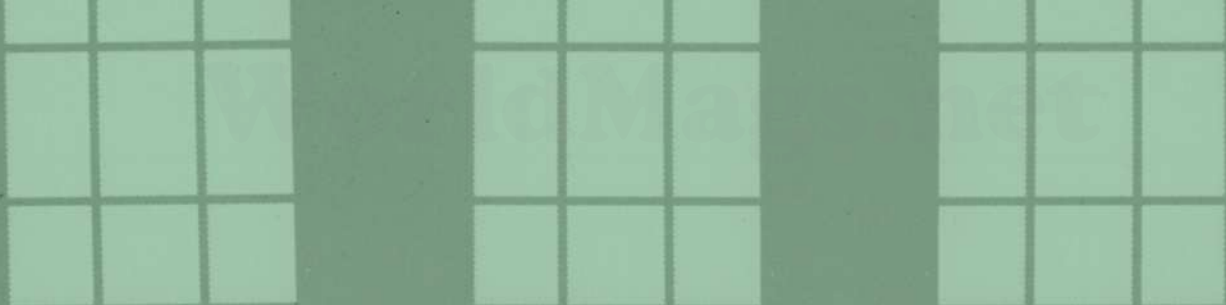
provide a reason.) The if-then plan for each team member would be “If I forward any e-mail, I’ll include a brief note at the top describing what it is and why I’m sharing it.” One manager I spoke with found that this if-then plan put an immediate end to the knee-jerk forwarding that had clogged everyone’s inbox with unnecessary information. It also increased the value of the e-mails that people did forward.

Specifying the who, when, and where is an ongoing process, not a onetime exercise. Ask team members to review their if-then plans regularly. Studies show that rehearsing the if-then link can more than double its effectiveness. It also allows groups to periodically reassess how realistic their plans are. Is anything harder or taking longer than expected? Are there steps that the team didn’t plan for? If circum-

stances change, your if-then plans need to change, too—or they won’t have the desired impact.

Though the research on if-then planning for teams and organizations is relatively new, the early results are promising, and social psychologists are examining several uses and benefits. (For instance, I’m studying whether it can be used to shift group mindsets from what I call “be good” thinking to “get better” thinking that fosters continuous improvement.) What’s already becoming clear is that if-then planning helps groups frame their goals in a way that’s achievable, providing a bridge between intentions and reality. It enables them to do more of what they mean to—and do it better—by fostering ownership and essentially reprogramming people to execute. 📌

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Jay W. Lorsch is the Louis E. Kirstein Professor of Human Relations at HBS and the editor of *The Future of Boards: Meeting the Governance Challenges of the Twenty-First Century* (Harvard Business Review Press, 2012).

How to Outsmart Activist Investors

What to do *before* a hedge fund buys into your company and demands changes
by Bill George
and Jay W. Lorsch

In July 2013 the activist investor Nelson Peltz called PepsiCo's chair and CEO, Indra Nooyi, to tell her that his Trian Fund Management had accumulated a more than \$1.3 billion stake in her company. He demanded that PepsiCo acquire Mondelēz International, the former Kraft snacks business (in which Peltz owned a \$1 billion stake), and then split PepsiCo into two entities, one focused on beverages and the other on food.

Peltz had staged a similar intervention at Kraft, where he pushed CEO Irene Rosenfeld to acquire Cadbury Schweppes and then split the combined company into a global snacks business (Mondelēz) and a U.S. grocery one (Kraft). Mondelēz had struggled, however, to compete with global giants such as Nestlé and Unilever. Hence Peltz's PepsiCo plan.

It was an audacious, even shocking, proposal, but it's the kind of thing that happens often these days. Since the start of the 21st century, a new breed of shareholder—the activist hedge fund—has frequently played a decisive role in interactions between corporations and markets. These activists

in governance—demanding board seats, replacing CEOs, and advocating specific business strategies. Multiple studies have shown that activism succeeds in raising share prices, at least temporarily. A major recent study by Lucian Bebchuk, Alon Brav, and Wei Jiang of activist investments from 1994 through 2007 also found five-year improvements in the operating performance of targeted companies.

We remain unconvinced, however, that hedge fund activism is a positive trend for U.S. corporations and the economy; in fact, we find that it reinforces short-termism and excessive attention to financial metrics. But because activists—and the institutional investors who often follow their lead—are generating positive returns, there is likely to be more rather than less of it in the future. In the interest of their corporations, CEOs and boards should be preparing for activist interventions rather than complaining about them.

Indra Nooyi and PepsiCo's board were prepared for Nelson Peltz's onslaught. As we describe below, they had in place a strategic plan that seemed far better attuned to changing market realities than Peltz's simplistic split-snacks-from-drinks proposal. *Have a clear strategic focus and stick to it*—that is one of six ways we've identified in which top management and boards can fend off activist challenges or sometimes even use them to improve their organizations.

Indra Nooyi and PepsiCo's board were prepared for Nelson Peltz's onslaught.

build on past efforts: Their interest in governance changes such as eliminating staggered boards and poison pills follows similar efforts by public-employee and union pension funds since the 1990s. Their focus on getting companies to take on more debt and pay out more to shareholders recalls the corporate raiders of the 1980s. In fact, a few of the most prominent activists, including Peltz and Carl Icahn, are former corporate raiders.

The new activists have dramatically upped the pressure on corporate executives and boards. Nearly every business day they target another company: More than 200 activist campaigns were launched in 2013, according to the law firm Wachtell, Lipton, Rosen & Katz, and assets under management at activist funds were up more than 50%. Although the value of those funds was estimated at \$100 billion—a mere fraction of 1% of the total stock market value of American corporations—the activists' leverage and impact far exceed the dollars they invest.

Their game is simple: They buy stocks they view as undervalued and pressure management to do things they believe will raise the value, such as giving more cash back to shareholders or shedding divisions that they think are driving down the stock price. With increasing frequency they get deeply involved

Have a Clear Strategic Focus and Stick to It

When she became PepsiCo's CEO, in 2006, Nooyi recognized that long-term trends, such as the global rise in obesity and Type 2 diabetes, would shift consumer demand toward more healthful foods and beverages and eventually slow the growth of PepsiCo's core business in soft drinks and snacks. In response she devised Performance with Purpose, a strategy targeting three growth areas: (1) "good for you" products, including Quaker Oats and Gatorade; (2) product innovations; and (3) emerging markets. Part of the idea was to fund the substantial investments—including acquisitions—required to build these categories with the cash flow from PepsiCo's core business. PepsiCo did precisely that, acquiring a number of food and beverage companies in emerging economies such as Brazil, India, Russia, and Ukraine.

A major transformation like that can put pressure on management and the board, because results typically take five to 10 years to be realized. As Nooyi's

Idea in Brief

THE CHALLENGE

Activist hedge funds are playing a larger role in interactions between corporations and markets. Their game is simple: They buy stocks they view as undervalued and pressure management to do things they believe will raise the value.

THE DANGER

Although the activists sometimes have good ideas, they may push for radical course changes that can be disastrous for an organization. It's crucial to be prepared for them so as not to be led astray.

THE RESPONSE

- 1** Have a clear strategic focus.
- 2** Analyze your business as an activist would.
- 3** Have your external advisers lined up in advance.
- 4** Build board chemistry.
- 5** Perform against declared goals.
- 6** Don't dismiss activist ideas out of hand.

predecessor, Steve Reinemund, has put it, "Major change is never applauded until your numbers prove it." In 2010 PepsiCo hit some bumps when Coke gained share on its soft drinks and Diet Coke overtook Pepsi-Cola as the second-best-selling soft drink in the world. PepsiCo shares declined by 4%, while Coca-Cola's rose by 40%, causing shareholders to criticize Nooyi for failing to invest sufficiently in soft drinks. With her board's support, Nooyi addressed those issues by making some key management changes, but she stayed with her strategic shift. Over the past two years PepsiCo has achieved solid growth in all categories and significantly outperformed Coca-Cola on the stock market. In 2013 PepsiCo's revenue and earnings per share rose by 1% and 10%, respectively, while Coca-Cola's revenue and EPS declined by 2% and 3%.

With a focused strategy that was paying dividends, Nooyi and PepsiCo's board could comfortably reject proposals from Peltz. "PepsiCo as a portfolio is working so well right now," CFO Hugh Johnston said in the summer of 2013. "The complexity of taking on an \$80 billion acquisition [Mondelēz]...will distract the business from...creating a lot of value for shareholders." Apparently most of the company's shareholders agreed. Peltz hasn't given up, but when this article went to press, he still hadn't made visible headway.

Analyze Your Business as an Activist Would

CEOs need to ensure that their boards understand the tactics of activist investors and have a game plan for responding. That means analyzing both how the activists might try to increase short-term shareholder value—through spin-offs and divestitures or financial engineering such as stock buybacks and increased debt—and the company's possible vulnerabilities in strategy and capital structure. Specific examples from other companies can help. The changes

activists want generally involve increasing risk in the pursuit of higher returns, but that's not always a bad thing. If a company can do that without jeopardizing corporate strategy, it should move before an activist forces it to.

The Swiss health care company Novartis is in the midst of just such an analysis, initiated by its new chairman, Joerg Reinhardt. CEO Joseph Jimenez said in the company's 2013 third-quarter earnings call that the review is aimed at creating businesses with the scale to compete globally. Three of Novartis's businesses—pharmaceuticals, eye care, and generics—generate revenue of at least \$10 billion a year and are ranked first or second in their respective markets. The company's three smaller businesses—vaccines and diagnostics, over-the-counter medicines, and animal health—don't pass that test. Consequently, to reduce the likelihood of an activist intervention, Novartis may consider augmenting them through acquisition or selling some of them.

All multibusiness companies should take this approach to determine whether the corporate strategy adds value to individual business units. The analysis must be rigorous to ensure that management is sufficiently objective about synergies and value added. In 2004 Target Corporation, long one of the nation's best-run retailers, undertook a similar analysis of its three retail arms—Dayton-Hudson, Mervyn's, and Target. Concluding that synergies were limited and that the real growth potential lay with Target, it divested the other two arms.

Have Your External Advisers Lined Up in Advance and Familiar with Your Company

In 2007 and 2008 Bill Ackman's Pershing Square hedge fund loaded up on shares of Target as the company struggled with declining same-store sales during the recession. Initially Ackman focused on

persuading the Target board to spin off its credit card operations. The board resisted because of the significant benefits of using its own card to incentivize and reward customers; eventually it agreed to sell 47% of the business to JPMorgan Chase. When Ackman insisted that Target divest the remaining 53%, the board refused.

Board commitment, chemistry, and communication with the CEO enabled Whole Foods Market to survive a perfect storm of business troubles, bad publicity, and hedge fund activism.

Next Ackman proposed that Target separate its real estate operations, which own most of its 680 stores, and put them into a real estate investment trust (REIT). Target's board and management concluded that doing so would mean losing control over its store properties, facing escalating operating costs to lease the stores back from the REIT, and taking on too much leverage with the REIT, so they again rejected Ackman's demands.

Ackman then launched a proxy fight to replace long-standing board members with himself and four other directors of his choice. He appeared almost daily on CNBC to take his case directly to investors. Target's board and management fought back, meeting directly with major shareholders. Ultimately, Target's directors won more than 73% of the votes cast at the 2008 annual meeting, and Ackman sold the bulk of his Target shares shortly thereafter.

To be prepared for such challenges, both management and the board must have external advisers whose guidance they can rely on. Target had been working with the same financial adviser, Goldman Sachs, and external legal counsel, Wachtell, Lipton, since a thwarted takeover attempt by J.C. Penney in 1996; those advisers had been engaged when Target spun off Dayton-Hudson and Mervyn's. They were well acquainted with the company and had gained the trust of its board. Thus Target could feel confident that it was on a sound strategic course and justified in denying Ackman's demands, and that management and the board could prevail in the proxy fight.

Build Board Chemistry

Activist investors are often out to divide a target company's board. To address the issues they raise in an objective and constructive manner, directors need the unity that comes from years of building board chemistry. That chemistry is enhanced through repeated engagement on important issues, weathering crises together, and candid dialogue with the CEO. The latter requires a high degree of transparency from the CEO and a willingness to share even the most sensitive information involved in decision making. To cope with an activist's challenges, directors must be fully committed to the company and its long-term objectives.

Just such board commitment, chemistry, and communication with the CEO enabled Whole Foods Market (WFM) to survive a perfect storm of business troubles, bad publicity, and hedge fund activism in 2008 and 2009. Since its 1978 inception as a single natural foods store in Austin, Texas, Whole Foods had grown rapidly, its same-store sales ever increasing as it evolved into a full-scale supermarket chain concentrating on healthful foods. With little previous business experience, WFM's cofounder John Mackey had established a board composed of retailing veterans and knowledgeable financial investors with stakes in the company. Board chemistry developed as they advised Mackey on how to build the Whole Foods franchise.

After three decades of almost unbroken success, the 2008 recession, coupled with customer perceptions that Whole Foods was high-priced, slowed the company's same-store sales growth by three or four percentage points. WFM had also been criticized in Michael Pollan's best-selling guide to sustainable eating, *The Omnivore's Dilemma* (2006). Just as



Whole Foods was trying to get Federal Trade Commission approval for its acquisition of Wild Oats, a smaller grocery chain, it came to light that Mackey had pseudonymously disparaged Wild Oats in postings on the internet. Between January 2006 and November 2008, WFM stock dropped by 90%. At that time the company brought in a friendly outside investor, Leonard Green & Partners.

Seeing the dramatic fall in stock price, the activist investor Ron Burkle bought 9.8 million shares (7% of the total) and put pressure on the Whole Foods board to increase near-term earnings by slowing growth. But the board did not flinch; it united behind Mackey and WFM's mission and values and rejected Burkle's demands. It did, however, make several changes. Mackey stepped down as chairman but retained the title of CEO, and the following year Walter Robb became his co-CEO.

Whole Foods' directors were able to resist Burkle's challenges in part because of their unity and chemistry and the constructive actions they took. The company appears to be better off as a result: In the past four years, same-store sales have increased annually by high single digits, revenue has grown by 50%, and earnings per share have tripled. WFM stock hit a new all-time high last fall, having risen 750% since these changes were made.

Perform in the Short Run Against Declared Goals

Ultimately, the best defense against an activist investor is consistent performance that realizes the company's stated goals; anything else makes the company vulnerable. J.C. Penney's mediocre performance under CEO Myron "Mike" Ullman—its stock declined by 65% from 2007 to 2010—encouraged



Bill Ackman to buy a significant position in the company. Consequently, the board agreed to Ackman's demand for a change in management, which led to an even worse situation. But the company would never have attracted that kind of outside attention had it continued to perform.

The Procter & Gamble board's decision in May 2013 to replace CEO Bob McDonald was also triggered by challenges from Ackman, which included a detailed report on how P&G could accelerate its earnings. P&G was vulnerable because of lackluster performance under McDonald from 2009 through 2012, a period during which the company frequently changed its strategic course in hopes of stimulating revenue growth. Although McDonald boosted P&G stock in 2012 with a \$10 billion cost reduction plan, the board decided to replace him with former CEO A.G. Lafley. Had P&G pursued a more aggressive

transformation soon after McDonald took over, as Unilever has done under Paul Polman, that change might not have been made.

These examples, and many others like them, demonstrate the importance of solid performance. At the same time, it's crucial to set realistic expectations. Many corporations trip up by publicly announcing overly ambitious goals or giving aggressive guidance to the market. In today's environment, companies and boards would be well advised to consider either skipping earnings guidance altogether or giving it with a range of outcomes that take into account the uncertainties they face.

Don't Dismiss Activist Ideas Out of Hand

Most activist investors are smart, motivated people who often notice things that boards and manag-

ers overlook. It is generally worth listening to their recommendations and implementing the ones that make sense. For example, in December 2006 Ralph Whitworth, of Relational Investors, learned about the AFL-CIO's campaign against the big paychecks Home Depot CEO Robert Nardelli was getting despite the company's poor performance. Whitworth asked his staff to examine Home Depot as a possible target. Its analysis uncovered an accounting error in the company's 10-K and a low return on assets at Home Depot's new wholesale division.

Relational Investors then took a small stake in Home Depot and wrote a letter to the board of directors asking for an opportunity to explain its findings. The board met with Whitworth and was stunned to learn that the accounting error had resulted in the company's reporting twice its actual return on invested capital. These events led to Nardelli's departure shortly thereafter, and Whitworth's longtime colleague David Batchelder was named to the board. Home Depot subsequently embraced several changes Whitworth had recommended, including focusing on its core retail business, establishing sounder capital-allocation processes and disciplines, and making its business strategy more transparent to investors.

Under its new CEO, Frank Blake, Home Depot exited the wholesale business in June 2007, revitalized customer service, and initiated a \$22.5 billion stock buyback program. Since Blake took over, the company's stock has doubled. The lesson here is that sometimes activists have good ideas, and boards should take the time to understand what is being proposed.

Doing What's Best for All Your Shareholders

One of a board's most important roles is to ensure that the company stays true to the mission and values that have made it successful. In recent years several activist fund managers with no industry experience have come to corporations with proposals for radical, unproven course changes. Sometimes major changes *are* needed, but companies that allow outside activists to implement them without full and careful consideration risk losing the commitment and engagement of their employees and customers.

That is what happened at J.C. Penney when Ackman effectively took it over in 2010. He had no experience in managing retail businesses but elaborate plans for revolutionizing and revitalizing this one. First he replaced Ullman as CEO with Ron Johnson, Apple's senior vice president of retailing operations.

Then he and Johnson changed Penney's pricing model, eliminating coupons and large markdowns. The results were disastrous for sales and profits and for Ackman's investment, which declined by almost \$500 million. Now Ullman is back in charge of a much-diminished company.

Similarly, the hedge fund manager Edward Lampert took over Sears in 2005 and made major changes. After merging the company with Kmart, Lampert cycled through four CEOs, none of whom had retail experience. He split Sears into more than 30 business units, each with its own president, board, and profit-and-loss statement, on the theory that this would promote accountability. Instead it brought chaos, as units competed against one another for company funds and other resources. In January 2013 Lampert made himself CEO, causing *Forbes* to label him the third-worst "CEO screw-up" of 2013, just below Ron Johnson. (The Brazilian billionaire turned millionaire Eike Batista, of EBX Group, took first place.) Activist investors are very smart people, but they rarely have the experience and wisdom to run large corporations, as these examples illustrate.

Because the activists usually cash out their holdings shortly after their demands are accepted or rejected, the question remains whether most of them are committed to companies' future success. The risk is significant that their initiatives can weaken a company's competitive position, to the detriment of long-term shareholders, and the high-leverage financing structures they often propose may put companies in jeopardy in the event of an economic downturn.

The new activists are not going away anytime soon. No doubt they will play an integral part in the stock market for years to come. As illustrated by the recent experiences of Procter & Gamble with Ackman and Apple with first David Einhorn's Greenlight Capital and then Carl Icahn, no company should feel immune to their challenges.

Boards and management teams are better able to handle these challenges if they have prepared for them. Recently Warren Buffett offered some sage advice on the subject. "I believe in running the company for shareholders that are going to stay," he said, "rather than the ones that are going to leave." When approached by an activist investor, directors should remember their fiduciary duty to the company and *all* its shareholders—not just the most meddlesome ones—and work to ensure the long-term viability of the company's mission and strategy. ▢

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Managing the “Invisibles”





David Zweig is a writer and lecturer who lives in New York. His forthcoming book, on which this article builds, is *Invisibles: The Power of Anonymous Work in an Age of Relentless Self-Promotion* (Portfolio, June 2014).

Many of your best people aren't seeking status. They take pleasure in the work itself. Here's how to create a culture that engages them. *by David Zweig*

In October 2004 a skunkworks project called Lab126, staffed by brilliant and accomplished engineers, began a three-year venture developing a device that would revolutionize an industry. Just a year into the endeavor, the huge tech company behind it

brought in an outside firm to create a key component of the product: its name.

Michael Cronan, the head of the firm, ultimately chose a word that means “to start a fire, to arouse.” The company that brought in Cronan is Amazon. The product is, of course, the Kindle. We might see product names as a mere afterthought to more serious concerns in an R&D process, but Jeff Bezos, Amazon’s CEO, felt differently. “Jeff wanted to talk about the future of reading, but in a small, not braggadocio way,” Karin Hibma, Cronan’s former business partner and now widow, said in an interview with the design journalist Steven Heller. The name had to strike just the right tone and provide a solid root for numerous expected spin-offs. “We didn’t want it to be ‘techie’ or trite,” Hibma went on to quote Voltaire: “The instruction we find in books is like fire. We fetch it from our neighbors, kindle it at home, communicate it to others, and it becomes the property of all.”

Michael Cronan’s thoughtful approach has produced numerous brand names that are embedded in our culture. Untold millions read, speak, and think about them every day. (One of Cronan’s earlier projects, TiVo—a device that few people today actually own—is still used as a verb for recording television shows.) Yet the name Michael Cronan itself is all but unknown. When I spoke with Hibma, who now runs the firm, I kept pressing her on the remarkability of her trade. After all, there are very few people in the world who can introduce words that penetrate a culture with near ubiquity. She admitted to occasions when she and Cronan would be on an airplane and notice Kindles in use around them. “I would mention to the person next to me that I’d had something to do with the name,” she said. But invariably, she would be met with “a confused look.” *No one* thinks about where names come from.

Michael Cronan is a member of a class I’ve come to call “Invisibles”: extremely capable and committed professionals who could easily succeed in high-profile careers but instead gravitate to work that is outside the spotlight. Invisibles work in a wide range of fields. They include people such as Dennis Poon, the lead structural engineer on some of the world’s tallest skyscrapers. When we see a grand building, if we think of its structure at all we think of the architect. But without engineers like Poon, those towers wouldn’t stand. Other Invisibles I’ve met include an elite interpreter at the UN; a piano technician for a world-renowned symphony orchestra; a perfumer who’s created blockbuster fragrances for the likes of

Calvin Klein, Hugo Boss, and Tom Ford; and magazine fact-checkers. (When is the last time you read a great article and thought to yourself, *Man, that was fact-checked beautifully!*)

I have traveled around the U.S., to Europe, and to Asia to meet with Invisibles. My discoveries about what makes them tick are the subject of my forthcoming book. But along the way I came to realize something else about Invisibles: They are a management challenge. Because they don’t crave recognition, they don’t spend time on self-promotion, so it’s easy to take them for granted. But fail to understand and give them what they *do* crave, and you will lose them, along with the tremendous value they deliver.

What Does It Mean to Be an Invisible?

Many of the Invisibles I met with are at the top of their fields; some are in charge of complex operations and of scores, even hundreds, of workers; many are well remunerated. I wanted to know: How is it, in an age when seemingly everyone is aggressively self-promoting, when we’re told that in order to get ahead we must have a brand or a “platform,” that these people—consummate professionals all—are satisfied with anonymity? How can they have the confidence to do their demanding jobs and yet not the ego to want to be widely known for their work? Despite the diversity of their careers, I found that all Invisibles share certain traits, with three in particular at the core.

Ambivalence toward recognition.

We all do work that is anonymous to some extent, but most of us strive for recognition. That is how we feed our sense of self-worth. Invisibles take a different approach. For them, any time spent courting praise or fame is time taken away from the important and interesting work at hand. In fact, their relationship with recognition is often the inverse of what most of us enjoy: The better they do their



Idea in Brief

WHO THEY ARE

Even in an age when self-promotion is encouraged and relentless, some very talented professionals prefer to do their work out of the limelight. “Invisibles” work in every field but have three traits in common: They are ambivalent about recognition. They are meticulous about their craft. They savor responsibility.

THE MANAGEMENT CHALLENGE

Because Invisibles won’t toot their own horns—but quietly make all the difference to their organizations’ success—managers need to figure out who they are and what makes them tick.

KEY ADVICE

Recognize your Invisible employees. Reward them fairly. Above all, make sure their work is intrinsically interesting. The payoff will go beyond retaining them: Your organization’s culture will be infused with their ethics and excellence.

jobs, the more they disappear. It may only be when something goes wrong that they’re noticed at all.

I met up with Dennis Poon at the nearly completed Shanghai Tower, the tallest building in China and the second tallest in the world. Poon is involved in three of the five tallest buildings under construction on the planet today. He is a director of a global engineering firm, and over the decades that he has worked in this sphere he has gained a reputation for excellence. Not surprisingly, he is well regarded and quite visible *within* his field. Critically, being an Invisible ultimately isn’t about the degree to which someone ends up being seen; it’s about motivation. And Poon, like all the other Invisibles I interviewed, maintains a deep ambivalence toward recognition.

One of the more telling manifestations of this was his tendency, when talking about his work, to use “we,” not “I.” Although he is in charge of large numbers of people and is responsible for the safety and soundness of complex multi-billion-dollar buildings, he reflexively views himself as part of a team. As we stood on an unfinished floor of the Tower some thousand feet up, surveying the hive of activity around us and the majestic view of the cityscape beyond, I rattled off his accomplishments on this grand structure. I asked: Since engineers at his level often have a pro-

found effect on the overall design of a skyscraper, isn’t it odd that only the “starchitects” gain notice? He seemed almost put off by the question, responding, “We are just structural engineers,” and listing all the other tradespeople involved in the Tower. Not only does he view himself as just one person among many within his specialty, he views his specialty as just one among many specialties integral to a skyscraper’s design and construction.

Think again of Michael Cronan. I asked his wife: Didn’t he feel disappointed, perhaps even indignant, that he and his craft were essentially invisible despite the omnipresence of his personal work? She said that, on the contrary, he embraced anonymity. If the work wasn’t ridiculed or rejected by the public, if it could slip into the vernacular as almost an inevitability, effortlessly tied to a product or a brand, then he knew he had done well. What gratified him, Hibma told me, was the work itself.

Even the most visible among us—movie stars, top athletes, captains of industry, and the like—often share this ambivalence toward recognition. A ghostwriter I interviewed (an archetypal Invisible if there ever was one), who has worked with scores of well-known people and is intimately familiar with their aspirations and life stories, claims that most of them aren’t motivated by fame; they are motivated by excellence. (This isn’t to say, of course, that there aren’t celebrities whose primary motive appears to be attention—only that for the truly accomplished and respected stars, not the reality TV ones, fame is a byproduct of their work, not the goal itself.)

Meticulousness. Sitting in the elegant Manhattan office of David Apel, the perfumer (or “nose,” as they’re called in the industry) behind some of the best-selling fine fragrances in the world, one could be forgiven for thinking it was the office of any accomplished big-city professional. It has the obligatory skyline view, the late-model computer perched

It’s easy to take Invisibles for granted. But fail to understand what they crave, and you will lose them—along with the value they deliver.



PHOTOGRAPHY: GETTY IMAGES/ONDINE COREWILN

Could There Be an Invisible Brand?

Brands have personalities, or at least that's something marketers aim for. But what if some of the traits of Invisibles apply, in some genuine if anthropomorphic way, to certain companies and products?

How should those brands position themselves in a commercial atmosphere that is even more cacophonous than the culture individuals operate in? "Companies and brands are having to figure out what to do when you're not just shouting at people," says Michael Lebowitz, the founder and CEO of Big Spaceship, a digital creative agency with clients such as BMW, DreamWorks, and YouTube. "Interruption is gone, or at least fading."

What's an example of an Invisible product? "Sharpie," Lebowitz told me. "It's not that nobody knows what a Sharpie is, but on some level people don't need to say that it's a great product. It can be a quiet product and have the utmost respect. The product is the consummate professional, and the brand should reflect that." To view the phenomenon in another context, think of different kinds of people at a party. There's the "life of the party" archetype. And there's the person who'd

on a glass desk, the modernist ergonomic chair. One might think so, that is, if not for this anomaly: dozens of sepia-tinted glass vials arranged on the desk like a stash of medicines from an 18th-century doctor or the trial potions of a mad scientist. The latter actually isn't far from reality, as Apel, if not technically a scientist, is an artist with a scientist's knowledge and fastidious methodology. Before he reached his vaunted position, he spent years in the lab compounding raw ingredients and accumulating a vast store of knowledge about chemistry. Words like "limonene," "gamma-terpinene," and "ambroxan" roll off his tongue as easily as a spritz of Ralph Lauren Blue (one of his creations) mists your neck. To create a new fragrance, Apel spends months of trial and error refining the formula for the "juice." With some fragrances stretching into hundreds of ingredients, each one measured to within hundredths or even thousandths of a gram, a meticulous log of each permutation is essential. Apel showed me some of the handwritten spreadsheets he relied on before the era of computers—documents worthy of the most punctilious accountant, with microscopic penciled-in decimal numbers filling the grids for arcane materials such as vetiver bourbon and heliotropin.

"Meticulousness" was so widespread and so deeply embedded in the work ethic of the Invisibles that during all my interviews with them, I knew it was just a matter of time before they would utter the word. Witnessing them at their work, though, made the trait far more apparent and resonant.

Savoring of responsibility. Some of the first Invisibles I spoke with were anesthesiologists. Unlike some Invisible professions, anesthesiology is something we're all aware of. Yet, as one doctor told me, "If you want to get fruit baskets from patients, don't go into anesthesiology." A patient never forgets the name of the surgeon who removed his gallbladder, but the anesthesiologist is remembered only if

something goes horribly wrong. When these doctors do their jobs perfectly, they're never thought of. Yet they literally have patients' lives in their hands. "It's funny how on TV, the surgeon is the leader of the OR—but in reality, during an emergency surgeons are often the ones freaking out, looking to me for assurance. It's my job to be the leader," Albert Scarmato, an anesthesiologist at CentraState Medical Center, in Freehold, New Jersey, told me. "But I love the responsibility," he added.

Dennis Poon, who is ultimately accountable for the integrity of buildings that thousands will use every day and that serve as iconic beacons of civic and even national pride, bears an almost unbearable amount of responsibility. If his calculations and designs are off, the results can be catastrophic. But when I asked him how he copes with the pressure, he said simply, "It's an honor." Similarly (although the stakes weren't as serious), Michael Cronan took

We might think that the person at the head of the boardroom table is the one with all the responsibility, but it's often someone unknown to the public who bears much of the weight.



rather have deeper conversations with people in small groups or one-on-one. “You can’t have a deep conversation with a big room of people,” Lebowitz says. “Some brands are about expertise. You can’t speak about expertise at a shallow level for a long time and have it resonate. It’s not that you *shouldn’t* speak to a mass audience, but you should do so more in line with the persona of a quiet expert.”

Ultimately, brands need to understand a more nuanced definition of recognition.

“In the TV era, all you had to do was interrupt the biggest shows,” Lebowitz says. “Now you have to deeply understand the purpose of the brand and create the right tone of voice and behavior.” It wouldn’t be appropriate for Doritos to model itself on Invisible traits, he notes. But broadly there is still something for all brands to learn. “Brands tend to want to constantly generate more. The instinct is, ‘We need to advertise more to make people more aware to sell

more.’ Sometimes that is still effective and appropriate, but other times it’s not.” Exclusivity, a sense of being in the know or part of a smaller group, Lebowitz observes, is catching on as an important way to position certain brands. There is, of course, an inherent contradiction in the very exercise of advertising, but at least one message is worth distilling for the commercial world: Marketing, especially for certain brands, doesn’t have to be simply about gaining the most attention.

on enormous responsibility for companies with millions of dollars riding on new products or rebrandings. How do you handle the stress when a billion-dollar company like Amazon entrusts you with naming what it hopes will be its next blockbuster product? “We are curious,” Karin Hibma told me. “If you transform fear into curiosity, you operate from a position of fascination and wonder.”

Invisibles show us that power and visibility are not always aligned. We might think that the person at the top of the pyramid, the front of the stage, or the head of the boardroom table is the one with all the responsibility, but it’s often someone unknown to the public who bears much of the weight.

A Culture of Noise

Perhaps it is beginning to be clear why Invisibles represent a management challenge. They are essential to organizations—they stealthily improve the work of those around them and elevate the overall tone—but the keys to keeping them and enabling them to do their best work are not the ones that motivate others. Are they a *new* challenge? Yes and no.

On the one hand, Invisibles have always existed, often performing crucial services for institutions and group endeavors and enabling organizations to thrive. And they have tended to be underserved by management, because, understandably, our traditional ways of evaluating workers rely to a large degree on visible metrics and cues.

On the other hand, Invisibles are a new challenge, worth putting a name to and thinking about as a class, because in our current era of amped-up self-promotion, they have become more the exceptions—and are more valuable than ever. If managers tended to neglect them and their needs in the past, they are even likelier to overlook them today, amid the glare of their colleagues’ high-beam self-aggrandizement. We’ve created a culture of personal horn tooting that

leaves us immersed in noise, struggling to discern any quiet signals of actual quality and achievement.

People have always varied in their desire for attention, but now far more of us have the means to attract it. A peasant living a thousand years ago might have wished for fame, but he would have been largely paralyzed in his relative obscurity. With advancing technologies over the years, a person’s ability to act on this desire has improved. Every communication tool since the printing press has provided a megaphone bigger and cheaper. Now the internet, especially social media, both enables and amplifies our cries for notice.

And the conventions of social media intensify our desire. Embedded in their structures are visible metrics of accomplishment—“likes” and followers. The quality of what is posted is second to the quantified reaction it receives. Google “How to make a meme go viral” and you’ll find yourself lost in a million-plus-results galaxy of sites like memecrusher.com; news clips from media like *Business Insider* citing research from “data scientists”; and books like Jonah Berger’s *Contagious: Why Things Catch On*, all claiming to have cracked the code. Although much of the interest in this space has to do with promoting commercial brands and products, there’s often an underlying message: The most important brand is you. This is an unsettling trend for Invisibles. In one of the meetings I had with prospective publishers while my book was in the proposal stage, an editor confided to me her anxiousness and indignation that her boss was pushing her to start a blog and a Twitter account in order to “raise her profile.” “I’m an editor!” she fumed. “Our job, explicitly, is to be behind the scenes.”

The concept of a hyperaware branded self makes many of us anxious, less happy, and more lonely, argues Sherry Turkle, the director of the MIT Initiative on Technology and Self and the author of *Alone*



Managers should start simply by recognizing who their Invisibles are—and by assuming that there are more of them than it might appear.



Together: Why We Expect More from Technology and Less from Each Other. From her research, Turkle told me, she has found that we’ve come to “define ourselves by sharing our thoughts and feelings even as we’re having them. The trouble with this is we don’t develop the capacity for solitude, the ability to gather ourselves.” And without that capacity, she added, “you turn to other people because you need them in order to feel alive.” For years our corporate and educational cultures have celebrated the extroverted, share-all mentality. But as countless researchers and writers (including Susan Cain, in her watershed best seller *Quiet: The Power of Introverts in a World That Can’t Stop Talking*) have noted, many people perform their best work alone. The brainstorming sessions and bull pen seating so widely venerated often don’t bring the best results—they just steer us toward whoever makes their point most loudly.

The Invisibles’ quiet sense of self and overriding commitment to their work is the antithesis—and in some organizations, the antidote—to all the noise.

Managing and Fostering Invisible Stars

That self-promotion is often cloaked in faux modesty (witness the rise of the term “humblebrag”) is testament to both its pervasiveness and its inherent distastefulness. It’s not surprising, then, that Invisibles are among the most highly respected members of organizations. If you want to retain them, the usual carrots probably won’t work. But although recognition is never their motivation, acknowledging them—as models, as leaders, as the proverbial team players—is exactly what you should do to ensure their satisfaction and lift performance across the board.

Managers should start simply by *recognizing who their Invisibles are*—and by assuming that there are more of them than it might appear. Sherry Turkle’s research, along with abundant evidence cited in my book, suggests that many of the people who have caved to the demands for self-branding are uncomfortable with having done so. Innumerable examples, from Invisibles I’ve met to anecdotal accounts in articles and their adjacent comment sections to academic studies, reveal that many professionals desperately would like to “step off the wheel” and just concentrate on their work; they are frustrated, anxious, and even resentful because they feel compelled to go against their nature and compete with all the squawking around them. (A caveat: Don’t ex-

pect that every low-profile worker is performing at the level I’m attributing to Invisibles, or that a lack of self-promotion necessarily implies more commitment to the work.)

To complicate matters, despite the encouragement, even the expectation, to engage in self-promotion, a degree of stigma is associated with the activity. As Radiohead’s Thom Yorke succinctly sang, “Ambition makes you look pretty ugly.” This contradiction forces people into a double bind: They feel they need to simultaneously promote themselves and avoid appearing to do so (see again: humblebrag). Be aware of this knotty dynamic facing your employees and know that you can temper it, in part, by advancing Invisible values.

Another task for managers is *deciding if they want more Invisibles on the team*. Not every professional should be an Invisible. (As an author, I’m happy to be out promoting a book with my name on the cover, thank you very much—and I would be doing a disservice to my publisher if I weren’t willing to do this.) Some positions really do call for star power. But in our age of gross attention seeking, it’s likely that your team could use a bigger dose of the Invisibles’ ethic and excellence. How to get it? One seemingly large-scale but executable solution is to alter your corporate culture. Use all the signaling devices in your repertoire, from celebrating what you want to see more of to promoting leaders who are models, to make it clear that tooting one’s horn won’t accomplish much. There is no hard line separating Invisibles from other professionals; they simply appear toward one end of a spectrum we all fall on. Establishing new cultural norms can pull more people in their direction.

Rewarding Invisibles fairly is absolutely essential, despite how hard they might make that for you. Don’t mistake their lack of self-promotion for a lack of understanding of what they are worth. It might even make sense to invert your assumptions about the relative pay your fame seekers and fame shunners need. For people who live for the limelight, recognition is a form of compensation.

To ensure that you are fully aware of your employees’ accomplishments, set strictly defined times and avenues for people to report them—ask for a quick weekly or monthly e-mail, for example. This might go against the grain of managers with “open door” policies, but, paradoxically, more structure and formality can prove liberating for many employees who do great work but aren’t comfortable drawing attention to how essential they are. And for

everyone else, such policies can help foster a more team-oriented environment, one in which there is less pressure to keep up with the guy down the hall and more encouragement to work with him. Adam Grant, the famed Wharton professor and best-selling author of *Give and Take: Why Helping Others Drives Our Success*, agrees. “If employees were expected to share their accomplishments at regular intervals, the premium on self-promotion might drop, freeing up employees to focus their energy on contributing rather than on managing their images,” he told me. Further, he said, that “might help organizations do a better job stopping the most selfish takers from climbing the corporate ladder—and opening the door for more-generous givers to rise.”

Perhaps most important, think about *making the work more intrinsically rewarding*. Invisibles care more than many about developing their craft, working in conditions that allow them to focus on what they do well, and seeing that the work itself matters. In a 2013 *New York Times* article about the job market, Alex Cecil, a former product manager at Citibank, explained why he left the bank: “I was good at my job, but I didn’t love it. For the first two years, I mistook getting a pat on the back for being satisfied with my job.” Invisibles, like just about everyone, are glad to be well paid. But as numerous studies in business psychology, particularly in the subspecialty of self-determination theory, have shown, extrinsic rewards such as money and praise are of limited effectiveness and can even be counterproductive. If you want to retain Invisible stars and to embolden others to emulate them, intrinsic rewards are critical. Consider the “20% time” popularized by Google (itself having learned from 3M), whereby employees are encouraged to spend part of their working hours on projects of their own devising. The innovation benefits to companies are often obvious—the invention of Post-it Notes is a widely cited example—but a less obvious benefit, the ability to fully engage the best kind of employee, might be even more important.

You’ll also need to consider questions of organizational structure, workplace design, and more. (Should you group Invisibles doing similar work together or distribute them across business units? Should you give them private workspaces or have them work in bull pens?) The specific answers aren’t obvious, but the overarching advice is: You should be *talking to Invisibles about what works for them*.

Having met with so many of these professionals and immersed myself in the relevant literature of

Invisibles Abroad

It may seem that the desire for attention is a universal human trait. But some cultures offer tantalizing evidence to the contrary. In many Asian countries, particularly ones steeped in Confucian tradition, standing out is anathema. Consider, for example, this time-honored Japanese proverb: “The nail that sticks up gets hammered down.” *Janteloven*, a philosophy deeply woven into the Scandinavian psyche, has a similar message. Tatyana Fertelmeyster, an intercultural communication consultant for nonprofits and for multinational corporations including Ernst & Young and Boeing, told me, “In

general, Russians don’t self-promote.” She noted that U.S. employees often won’t wait for a formal review to talk with their boss about what they have accomplished, but in Russia such forwardness would be atypical.

This isn’t to say that more-collectivist attitudes are necessarily better—but it’s useful to recognize that the attitude prevailing in the United States (and, some experts would argue, dominating international corporate culture everywhere) is not inevitable. Cultures can learn from one another and create superior hybrids.

psychology, sociology, and business, among other specialties, I’m convinced that Invisibles are on to something very big. There are strong correlations between their distinctive traits and exceptional levels of achievement and life satisfaction.

So we’d do well to continue studying the work habits and preferences of people like Michael Cronan. It would serve many professionals, and in doing so would serve the organizations they work for. When I interviewed Karin Hibma about Cronan, I couldn’t help noticing something: She, like so many others, was an Invisible *behind* an Invisible. Cronan’s obituaries cite him as the creator of the names TiVo and so on, as I did in the lede in this article. Yet Cronan collaborated with a team of people, including Hibma. “When I began working with Michael, I decided to market the firm as Cronan, rather than Cronan Design or something like that,” Hibma told me; she had felt that his name alone would be most effective. It didn’t matter to her that the choice might minimize perceptions of the roles she and others had played. She was concerned only with getting the best results and was content to be essentially unseen. “A lot of people assume,” she told me, “that Cronan was just Michael, but it was and is a firm.” ♥

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FROM PURPOSE TO IMPACT

Figure out your passion
and put it to work.

BY NICK CRAIG AND SCOTT SNOOK

SS LEADERSHIP

The two most important days in your life are the day you are born and the day you find out why.

— Mark Twain

Over the past five years, there's been an explosion of interest in purpose-driven leadership. Academics argue persuasively that an executive's most important role is to be a steward of the organization's purpose. Business experts make the case that purpose is a key to exceptional performance, while psychologists describe it as the pathway to greater well-being.

Doctors have even found that people with purpose in their lives are less prone to disease. Purpose is increasingly being touted as the key to navigating the complex, volatile, ambiguous world we face today, where strategy is ever changing and few decisions are obviously right or wrong.

Despite this growing understanding, however, a big challenge remains. In our work training thousands of managers at organizations from GE to the Girl Scouts, and teaching an equal number of executives and students at Harvard Business School, we've found that fewer than 20% of leaders have a strong sense of their own individual purpose. Even fewer can distill their purpose into a concrete statement. They may be able to clearly articulate their organization's mission: Think of Google's "To organize the world's information and make it universally accessible and useful," or Charles Schwab's "A relentless ally for the individual investor." But when asked to describe their own purpose, they typically fall back on something generic and nebulous: "Help others excel." "Ensure success." "Empower my people." Just as problematic, hardly any of them have a clear plan for translating purpose into action. As a result, they limit their aspirations and often fail to achieve their most ambitious professional and personal goals.

Our purpose is to change that—to help executives find and define their leadership purpose and put it to use. Building on the seminal work of our colleague Bill George, our programs initially covered a wide range of topics related to authentic leadership, but in recent years purpose has emerged as the cornerstone of our teaching and coaching. Executives tell us it is the key to accelerating their growth and deepening their impact, in both their professional and personal lives. Indeed, we believe that the process of articulating your purpose and finding the courage to live it—what we call *purpose to impact*—is the single most important developmental task you can undertake as a leader.

Consider Dolf van den Brink, the president and CEO of Heineken USA. Working with us, he identified a decidedly unique purpose statement—"To be the wuxia

master who saves the kingdom"—which reflects his love of Chinese kung fu movies, the inspiration he takes from the wise, skillful warriors in them, and the realization that he, too, revels in high-risk situations that compel him to take action. With that impetus, he was able to create a plan for reviving a challenged legacy business during extremely difficult economic conditions. We've also watched a retail operations chief call on his newly clarified purpose—"Compelled to make things better, whomever, wherever, however"—to make the "hard, cage-rattling changes" needed to beat back a global competitor. And we've seen a factory director in Egypt use his



Idea in Brief

THE PROBLEM

Purpose is increasingly seen as the key to navigating the complex world we face today, where strategy is ever changing and few decisions are obviously right or wrong. At the same time, few leaders have a strong sense of their own leadership purpose or a clear plan for translating it into action. As a result, they often fail to achieve their most ambitious professional and personal goals.

THE SOLUTION

The first step toward uncovering your leadership purpose is to mine your life story for major themes that reveal your lifelong passions and values. Next, craft a concise purpose statement that leaves you emboldened and energized. Finally, develop a *purpose-to-impact plan*.

Effective plans:

- Use language that is uniquely meaningful to you

- Focus on big-picture aspirations and then set shorter-term goals, working backward with increasing specificity
- Emphasize the strengths you bring to the table
- Take a holistic view of work and family

purpose—"Create families that excel"—to persuade employees that they should honor the 2012 protest movement not by joining the marches but by maintaining their loyalties to one another and keeping their shared operation running.

We've seen similar results outside the corporate world. Kathi Snook (Scott's wife) is a retired army colonel who'd been struggling to reengage in work after several years as a stay-at-home mom. But after nailing her purpose statement—"To be the gentle, behind-the-scenes, kick-in-the-ass reason for success," something she'd done throughout her military career and with her kids—she decided to run for a hotly contested school committee seat, and won.

And we've implemented this thinking across organizations. Unilever is a company that is committed to purpose-driven leadership, and Jonathan Donner, the head of global learning there, has been a key partner in refining our approach. Working with his company and several other organizations, we've helped more than 1,000 leaders through the purpose-to-impact process and have begun to track and review their progress over the past two to three years. Many have seen dramatic results, ranging from two-step promotions to sustained improvement in business results. Most important, the vast majority tell us they've developed a new ability to thrive in even the most challenging times.

In this article, we share our step-by-step framework to start you down the same path. We'll explain how to identify your purpose and then develop an impact plan to achieve concrete results.

WHAT IS PURPOSE?

Most of us go to our graves with our music still inside us, unplayed.

— Oliver Wendell Holmes

Your leadership purpose is who you are and what makes you distinctive. Whether you're an entrepre-

neur at a start-up or the CEO of a *Fortune* 500 company, a call center rep or a software developer, your purpose is your brand, what you're driven to achieve, the magic that makes you tick. It's not *what* you do, it's *how* you do your job and *why*—the strengths and passions you bring to the table no matter where you're seated. Although you may express your purpose in different ways in different contexts, it's what everyone close to you recognizes as uniquely you and would miss most if you were gone.

When Kathi shared her purpose statement with her family and friends, the response was instantaneous and overwhelming: "Yes! That's you—all business, all the time!" In every role and every context—as captain of the army gymnastics team, as a math teacher at West Point, informally with her family and friends—she had always led from behind, a gentle but forceful catalyst for others' success. Through this new lens, she was able to see herself—and her future—more clearly. When Dolf van den Brink revealed his newly articulated purpose to his wife, she easily recognized the "wuxia master" who had led his employees through the turmoil of serious fighting and unrest in the Congo and was now ready to attack the challenges at Heineken USA head-on.

At its core, your leadership purpose springs from your identity, the essence of who you are. Purpose is not a list of the education, experience, and skills you've gathered in your life. We'll use ourselves as examples: The fact that Scott is a retired army colonel with an MBA and a PhD is not his purpose. His purpose is "to help others live more 'meaning-full' lives." Purpose is also not a professional title, limited to your current job or organization. Nick's purpose is not "To lead the Authentic Leadership Institute." That's his job. His purpose is "To wake you up and have you find that you are home." He has been doing just that since he was a teenager, and if you sit next to him on the shuttle from Boston to New

York, he'll wake you up (figuratively), too. He simply can't help himself.

Purpose is definitely not some jargon-filled catch-all ("Empower my team to achieve exceptional business results while delighting our customers"). It should be specific and personal, resonating with you and you alone. It doesn't have to be aspirational or cause-based ("Save the whales" or "Feed the hungry"). And it's not what you think it should be. It's who you can't help being. In fact, it might not necessarily be all that flattering ("Be the thorn in people's side that keeps them moving!").

HOW DO YOU FIND IT?

To be nobody but yourself in a world which is doing its best, night and day, to make you everybody else, means to fight the hardest battle which any human being can fight; and never stop fighting.

— E.E. Cummings

Finding your leadership purpose is not easy. If it were, we'd all know exactly why we're here and be living that purpose every minute of every day. As E.E. Cummings suggests, we are constantly bombarded by powerful messages (from parents, bosses, management gurus, advertisers, celebrities) about what we should be (smarter, stronger, richer) and about how to lead (empower others, lead from behind, be authentic, distribute power). To figure out who you are in such a world, let alone "be nobody but yourself," is indeed hard work. However, our experience shows that when you have a clear sense of who you are, everything else follows naturally.

Some people will come to the purpose-to-impact journey with a natural bent toward introspection and reflection. Others will find the experience uncomfortable and anxiety-provoking. A few will just roll their eyes. We've worked with leaders of all stripes and can attest that even the most skeptical discover personal and professional value in the experience. At one multinational corporation, we worked with a senior lawyer who characterized himself as "the least likely person to ever find this stuff useful." Yet he became such a supporter that he required all his people to do the program. "I have never read a self-help book, and I don't plan to," he told his staff. "But if you want to become an exceptional leader, you have to know your leadership purpose." The key to engaging both the dreamers and the skeptics is to build a process that has room to express individuality but also offers step-by-step practical guidance.

The first task is to mine your life story for common threads and major themes. The point is to identify your core, lifelong strengths, values, and passions—those pursuits that energize you and bring you joy. We

use a variety of prompts but have found three to be most effective:

- What did you especially love doing when you were a child, before the world told you what you should or shouldn't like or do? Describe a moment and how it made you feel.
- Tell us about two of your most challenging life experiences. How have they shaped you?
- What do you enjoy doing in your life now that helps you sing your song?

We strongly recommend grappling with these questions in a small group of a few peers, because we've found that it's almost impossible for people to identify their leadership purpose by themselves.



You can't get a clear picture of yourself without trusted colleagues or friends to act as mirrors.

After this reflective work, take a shot at crafting a clear, concise, and declarative statement of purpose: "My leadership purpose is ____." The words in your purpose statement must be yours. They must capture your essence. And they must call you to action.

To give you an idea of how the process works, consider the experiences of a few executives. When we asked one manager about her childhood passions, she told us about growing up in rural Scotland and delighting in "discovery" missions. One day, she and a friend set out determined to find frogs and spent the whole day going from pond to pond, turning over every stone. Just before dark, she discovered a single frog and was triumphant. The purpose statement she later crafted—"Always find the frogs!"—is perfect for her current role as the senior VP of R&D for her company.

Another executive used two "crucible" life experiences to craft her purpose. The first was personal: Years before, as a divorced young mother of two, she found herself homeless and begging on the street, but she used her wits to get back on her feet. The second was professional: During the economic crisis of 2008, she had to oversee her company's retrenchment from Asia and was tasked with closing the flagship operation in the region. Despite the near hopeless job environment, she was able to help every one of her employees find another job before letting them go. After discussing these stories with her group, she shifted her purpose statement from "Continually and consistently develop and facilitate the growth and development of myself and others leading to great performance" to "With tenacity, create brilliance."

Dolf came to his "wuxia master" statement after exploring not only his film preferences but also his extraordinary crucible experience in the Congo, when militants were threatening the brewery he managed and he had to order it barricaded to protect his employees and prevent looting. The Egyptian factory director focused on family as his purpose because his stories revealed that familial love and support had been the key to facing every challenge in his life, while the retail operations chief used "Compelled to improve" after realizing that his greatest achievements had always come when he pushed himself and others out of their comfort zones.

As you review your stories, you will see a unifying thread, just as these executives did. Pull it, and

PURPOSE STATEMENTS

FROM BAD...

Lead new markets department to achieve exceptional business results

Be a driver in the infrastructure business that allows each person to achieve their needed outcomes while also mastering the new drivers of our business as I balance my family and work demands

Continually and consistently develop and facilitate the growth and development of myself and others leading to great performance

TO GOOD

Eliminate "chaos"

Bring water and power to the 2 billion people who do not have it

With tenacity, create brilliance

you'll uncover your purpose. (The exhibit "Purpose Statements: From Bad to Good" offers sampling of purpose statements.)

HOW DO YOU PUT YOUR PURPOSE INTO ACTION?

This is the true joy in life, the being used for a purpose recognized by yourself as a mighty one.

— George Bernard Shaw

Clarifying your purpose as a leader is critical, but writing the statement is not enough. You must also envision the impact you'll have on your world as a result of living your purpose. Your actions—not your words—are what really matter. Of course, it's virtually impossible for any of us to fully live into our purpose 100% of the time. But with work and careful planning, we can do it more often, more consciously, wholeheartedly, and effectively.

Purpose-to-impact plans differ from traditional development plans in several important ways: They start with a statement of leadership purpose rather than of a business or career goal. They take a holistic view of professional and personal life rather than ignore the fact that you have a family or outside inter-

PURPOSE-TO-IMPACT PLANNING	TRADITIONAL DEVELOPMENT PLANNING
Uses meaningful, purpose-infused language	Uses standard business language
Is focused on strengths to realize career aspirations	Is focused on weaknesses to address performance
Elicits a statement of leadership purpose that explains how you will lead	States a business- or career-driven goal
Sets incremental goals related to living your leadership purpose	Measures success using metrics tied to the firm's mission and goals
Focuses on the future, working backward	Focuses on the present, working forward
Is unique to you; addresses who you are as a leader	Is generic; addresses the job or role
Takes a holistic view of work and family	Ignores goals and responsibilities outside the office

ests and commitments. They incorporate meaningful, purpose-infused language to create a document that speaks to you, not just to any person in your job or role. They force you to envision long-term opportunities for living your purpose (three to five years out) and then help you to work backward from there (two years out, one year, six months, three months, 30 days) to set specific goals for achieving them.

When executives approach development in this purpose-driven way, their aspirations—for instance, Kathi's decision to get involved in the school board, or the Egyptian factory director's ambition to run manufacturing and logistics across the Middle East—are stoked. Leaders also become more energized in their current roles. Dolf's impact plan inspired him to tackle his role at Heineken USA with four mottos for his team: "Be brave," "Decide and do," "Hunt as a pack," and "Take it personally." When Unilever executive Jostein Solheim created a development plan around his purpose—"To be part of a global move-

ment that makes changing the world seem fun and achievable"—he realized he wanted to stay on as CEO of the Ben & Jerry's business rather than moving up the corporate ladder.

Let's now look at a hypothetical purpose-to-impact plan (representing a composite of several people with whom we've worked) for an in-depth view of the process. "Richard" arrived at his purpose only after being prodded into talking about his life-long passion for sailing; suddenly, he'd found a set of experiences and language that could redefine how he saw his job in procurement.

Richard's development plan leads with the **PURPOSE STATEMENT** he crafted: "To harness all the elements to win the race." This is followed by an **EXPLANATION** of why that's his purpose: Research shows that understanding what motivates us dramatically increases our ability to achieve big goals.

Next, Richard addresses his **THREE- TO FIVE-YEAR GOALS** using the language of his purpose statement. We find that this is a good time frame to target first; several years is long enough that even the most disillusioned managers could imagine they'd actually be living into their purpose by then. But it's not so distant that it creates complacency. A goal might be to land a top job—in Richard's case, a global procurement role—but the focus should be on how you will do it, what kind of leader you'll be.

Then he considers **TWO-YEAR GOALS**. This is a time frame in which the grand future and current reality begin to merge. What new responsibilities will you take on? What do you have to do to set yourself up for the longer term? Remember to address your personal life, too, because you should be more fully living into your purpose everywhere. Richard's goals explicitly reference his family, or "shore team."

The fifth step—setting **ONE-YEAR GOALS**—is often the most challenging. Many people ask, "What if most of what I am doing today isn't aligned in any way with my leadership purpose? How do I get from here to there?" We've found two ways to address this problem. First, think about whether you can rewrite the narrative on parts of your work, or change the way you do some tasks, so that they become an expression of your purpose. For example, the phrase "seaworthy boat" helps Richard see the meaning in managing a basic procurement process. Second, consider whether you can add an activity that is 100% aligned with your purpose. We've found that most people can manage to devote 5% to 10% of their time to something that energizes

A Purpose-to-Impact Plan

them and helps others see their strengths. Take Richard's decision to contribute to the global strategic procurement effort: It's not part of his "day job," but it gets him involved in a more purpose-driven project.


Now we get to the nitty-gritty. What are the **CRITICAL NEXT STEPS** that you must take in the coming six months, three months, and 30 days to accomplish the one-year goals you've set out? The importance of small wins is well documented in almost every management discipline from change initiatives to innovation. In detailing your next steps, don't write down all the requirements of your job. List the activities or results that are most critical given your newly clarified leadership purpose and ambitions. You'll probably notice that a number of your tasks seem much less urgent than they did before, while others you had pushed to the side take priority.

Finally, we look at the **KEY RELATIONSHIPS** needed to turn your plan into reality. Identify two or three people who can help you live more fully into your leadership purpose. For Richard, it is Sarah, the HR manager who will help him assemble his crew, and his wife, Jill, the manager of his "shore team."

Executives tell us that their individual purpose-to-impact plans help them stay true to their short- and long-term goals, inspiring courage, commitment, and focus. When they're frustrated or flagging, they pull out the plans to remind themselves what they want to accomplish and how they'll succeed. After creating his plan, the retail operations chief facing global competition said he's no longer "shying away from things that are too hard." Dolf van den Brink said: "I'm much clearer on where I really can contribute and where not. I have full clarity on the kind of roles I aspire to and can make explicit choices along the way."

WHAT CREATES the greatest leaders and companies? Each of them operates from a slightly different set of assumptions about the world, their industry, what can or can't be done. That individual perspective allows them to create great value and have significant impact. They all operate with a unique leadership purpose. To be a truly effective leader, you must do the same. Clarify your purpose, and put it to work. ▣

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 **Nick Craig** is the president of the Authentic Leadership Institute. **Scott Snook** is the MBA Class of 1958 Senior Lecturer of Business Administration at Harvard Business School.

This sample plan shows how "Richard" uses his unique leadership purpose to envision big-picture aspirations and then work backward to set more-specific goals.

1 CREATE PURPOSE STATEMENT

To harness all the elements to win the race

2 WRITE EXPLANATION

I love to sail. In my teens and 20s, I raced high-performance three-man skiffs and almost made it to the Olympics. Now sailing is my hobby and passion—a challenge that requires discipline, balance, and coordination. You never know what the wind will do next, and in the end, you win the race only by relying on your team's combined capabilities, intuition, and flow. It's all about how you read the elements.

3 SET THREE- TO FIVE-YEAR GOALS

Be known for training the best crews and winning the big races: Take on a global procurement role and use the opportunity to push my organization ahead of competitors

HOW WILL I DO IT?

- Make everyone feel they're part of the same team
- Navigate unpredictable conditions by seeing wind shears before everyone else
- Keep calm when we lose individual races; learn and prepare for the next ones

Celebrate my shore team: Make sure the family has one thing we do that binds us

4 SET TWO-YEAR GOALS

Win the gold: Implement a new procurement model, redefining our relationship with suppliers and generating 10% cost savings for the company

Tackle next-level racing challenge:

Move into a European role with broader responsibilities

HOW WILL I DO IT?

- Anticipate and then face the tough challenges
- Insist on innovative yet rigorous and pragmatic solutions
- Assemble and train the winning crew

Develop my shore team: Teach the boys to sail

5 SET ONE-YEAR GOALS

Target the gold: Begin to develop new procurement process

Win the short race: Deliver Sympix project ahead of expectations

Build a seaworthy boat: Keep TFLS process within cost and cash forecast

HOW WILL I DO IT?

- Accelerate team reconfiguration
 - Get buy-in from management for new procurement approach
- Invest in my shore team:** Take a two-week vacation, no e-mail

6 MAP OUT CRITICAL NEXT STEPS

Assemble the crew: Finalize key hires

Chart the course: Lay the groundwork for Sympix and TFLS projects

HOW WILL I DO IT?

SIX MONTHS:

- Finalize succession plans
- Set out Sympix timeline

THREE MONTHS:

- Land a world-class replacement for Jim
- Schedule "action windows" to focus with no e-mail

30 DAYS:

- Bring Alex in Shanghai on board
- Agree on TFLS metrics
- Conduct one-day Sympix offsite

Reconnect with my shore team: Be more present with Jill and the boys

7 EXAMINE KEY RELATIONSHIPS

Sarah, HR manager

Jill, manager of my "shore team"



CUSTOM TRAINING FACILITY

State-of-the-art workforce training facility through a partnership with Bossier Parish Community College



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Lowest business taxes for new manufacturing operations in the U.S., according to the Tax Foundation and KPMG



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ROBUST INCENTIVES

Tailored incentive package to meet specific project needs

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The Globe



Right Up the Middle: How Israeli Firms Go Global

by Jonathan Friedrich,
Amit Noam, and Elie Ofek

When the leaders of small and midsize companies that are outgrowing their home markets contemplate expanding abroad, the prospect of having to contend with two sets of formidable competitors often gives them pause. One set is multinational companies, which have extensive resources, strong brands, and economies of scale. The other is local players in the foreign markets, which have an intimate understanding of consumers' needs, know how to operate in their regulatory environments, and enjoy close relationships with suppliers, distributors, retailers, and sometimes government officials. Attempting to find the sweet spot between the "giants" and the "locals" can

be daunting for companies with limited resources. And if leaders are not prudent in the search, they may put their companies at risk.

However, the more than 75 Israeli companies that have transformed themselves in the past four decades from enterprises with revenue of less than \$100 million into global players with hundreds of millions and even billions of dollars in sales prove that it can be done. Their approach: Focus on countries and regions that offer an opportunity multinationals don't find attractive and local companies can't adequately address, and then penetrate this middle ground in ways that won't immediately trigger a response.

ABOVE An employee arranges bottles at Teva Pharmaceutical's plant in Gödöllő, Hungary, in 2012.

Israeli companies have not had many other options for pursuing growth. Their home market is small, and their opportunities for expanding into other Middle Eastern countries are severely limited. Israel's neighbors are either hostile to its very existence or maintain minimal commercial relations with the country. So entrepreneurial business leaders—and Israel is blessed with an abundance of them—have had only two choices for maximizing their firms' growth potential: be acquired by a multinational or exploit the middle ground in other markets.

It is no coincidence that Israeli executives feel comfortable maneuvering in competitive battlegrounds where their companies are the underdogs. The vast majority of them served as officers or in other pivotal roles in the Israel Defense Forces (IDF), the country's military services, where they had firsthand experience with sophisticated military maneuvering methods.

Since the creation of modern Israel, in 1948, the IDF has had fewer personnel and arms than the militaries of surrounding countries. Most of the wars it has fought have involved simultaneous battles on multiple fronts. For example, during the Six-Day War, in 1967, Israeli forces took on the Egyptians to the south, the Jordanians to the east, and the Syrians to the north. Military leaders had to figure out how to marshal scant and precious resources across battle zones. It was not uncommon for a unit to fight on one battleground one day and on an entirely different one the next.

Consequently, the IDF had to excel at orchestrating the battle theater—constantly determining where to focus military efforts and reacting quickly to developments. Israeli officers are schooled in identifying and exploiting the enemy's weaknesses and blind spots, launching attacks when least expected and with utmost force, undertaking stealth missions, and using ploys and ruses to surprise the enemy.

The Israeli companies we hold up as models in this article—Netafim, Teva Pharmaceutical Industries, and Amdocs—employed many of those maneuvering tactics in globalizing. We don't think they would

have succeeded in becoming the large global enterprises they are today if they had applied more-conventional business strategies, such as reducing costs to try to compete on price against much larger firms or moving into adjacent product or market segments already well served by local players. Other Israeli firms that have successfully applied the same approaches include Strauss Group, Comverse Technology, Delta Galil Industries, NICE Systems, Nilit, Orbotech, Ceragon Networks, DSP Group, Given Imaging, Gottex, Makhteshim Agan, Keter, Polgat, and Tower Semiconductor. The insights presented here stem from our studies of more than 30 Israeli firms and Shaldor's decades of consulting work helping more than 40 Israeli companies to globalize, including the three discussed in this article.

Identifying the Middle Ground

The heart of the Israeli companies' approach is finding an opportunity that lies in a market space between what global giants find attractive and what local firms find feasible. It involves two assessments.

1. *Will the opportunity stay unappealing to the giants long enough for us to establish a defensible market position?* The answer is likely to be yes if one or more of the following conditions exist:

- The market potential is too small to meet the giants' growth targets.
- The giants consider it too costly to customize their offering to meet local needs, or they prefer to deliver broad or integrated solutions.
- They don't think that the tailored product or service the market requires would fit their global brand image.

Multinationals generally look for opportunities that can make a meaningful contribution to their top and bottom lines relatively quickly (two to four years) and that allow them to leverage their competitive advantages. In short, the characteristics that make global giants so powerful—their deep pockets, scale, power to dictate terms with suppliers and distributors, ability to offer comprehensive solutions, and brand

recognition—often deter them from going after certain countries and segments.

2. *Will local firms have substantial disadvantages relative to our company?* The answer may be yes if one or more of the following is true:

- The locals use technology that is older than ours or is not suited to the envisioned application.
- Their operational know-how or practices are significantly weaker than ours.
- They can tap only limited financial resources (including government subsidies) to fight back.
- Local regulators don't give them special treatment.

Even if the technology in question is not that sophisticated, or locals could muster the engineering firepower to develop it quickly, the foreign entrant may still have the upper hand. It may have greater expertise in producing the offering or providing it to customers, for instance. If it is attacking a few countries simultaneously, it may have economies of scale that locals can't match.

After identifying a viable middle ground, the next step is to move into and decisively take control of it. Three effective strategies can be used, either individually or in combination: evade the giants, disguise yourself as a local, and focus on weak spots.

Evade the Giants

When the competitors of greatest concern are multinationals, the aim is not to awaken them. Companies can accomplish this by focusing on customers whose needs are not adequately served by the products and services that mainstream customers demand. The key is to select segments that are too "niche" to interest the giants but when strung together across multiple global locations amount to a sizable opportunity. Companies can prevent local players from moving into the segment by exploiting advantages in technology, manufacturing, or operational know-how.

Consider how Netafim, which developed a radically novel technique for drip irrigation that reduces water consumption and improves crop yields, established itself

in the United States in the 1980s. Netafim had penetrated the Israeli market in the 1970s by demonstrating how its technology could transform agriculture in arid places such as the Negev and the Arava Valley. Recognizing that it was reaching the limit of its growth potential in Israel, the company engaged in a few projects in Hawaii and Australia, providing irrigation solutions for sugarcane growers, and thus gained an initial understanding of how to do business outside its home.

In the early 1980s, when Netafim's annual sales totaled only \$60 million, Oded Winkler, the CEO at the time, orchestrated the company's first serious attempt to build a permanent foreign business by moving into the United States. He determined that the global giants were focusing on the large farms that purchased substantial quantities of high-volume irrigation equipment and demanded maintenance services for conventional irrigation methods. And he saw that none of the minor local competitors in the United States and other target countries had advanced drip-irrigation technology, and therefore they would not be able to easily replicate Netafim's cutting-edge solutions and implementation know-how. As long as the company pursued a focused approach in each foreign market, Winkler believed, it had a window of a few years to expand into multiple regions without appearing on the giants' radar screens.

Accordingly, Netafim moved into the United States—and several years later into Australia, Italy, France, and South Africa—by targeting small and midsize farms in areas where water scarcity was a major concern and where the crops (grapes, for example) could significantly benefit from drip irrigation. The company's leaders believed that the big suppliers of traditional irrigation systems would take little if any interest in its activities, for two reasons: Netafim's target customers were relatively small and expensive to serve (converting farmers to drip irrigation requires substantial education and training), and they represented only about 10% of the U.S. market.

Netafim

became the world leader in drip irrigation by offering a novel technology that large companies lacked to a market segment—small and midsize farms in arid regions—those players ignored.

ANNUAL REVENUE

\$60M

EARLY 1980S

MORE THAN

\$750M

2013

Netafim set up a U.S. subsidiary (Netafim USA) and staffed it with Israeli product experts and local marketers experienced in selling to the target customers. It concentrated on states such as California and Arizona, where serious water-conservation programs were already in place and officials preferred proven solutions. (Netafim had years of data from its Israeli operations.)

The approach worked. Large companies such as Toro and Jain Irrigation didn't begin addressing this segment until a decade after Netafim entered the United States. Others, including Deere, followed in the mid- to late 2000s. But by then Netafim was well established globally, and its advantages in technology and implementation were difficult to match. Eventually, smaller local players, such as Rain Bird in the United States, began to move into the space. But none was able to achieve Netafim's scale, expertise, and continuing innovations. Netafim also enjoyed a production cost advantage over both the giants and the locals that increased as the company expanded.

Today Netafim is the world leader in drip irrigation, with a market share of more than 30%. It serves some 100 countries and generated sales of more than \$750 million in 2013.

Disguise Yourself as a Local

When the competitors to watch for are smaller, local firms, the strategy involves assuming the guise of a local player and then creating tailored offerings that address the market's needs better than those the small firms are providing. For this to work, the opportunity in question must be unappealing to multinationals—either because it lies outside their core competence or because they are dedicated to providing a different value proposition.

Teva Pharmaceutical's globalization strategy is an excellent illustration. By the mid-1980s, when revenues were a modest \$50 million, Eli Hurvitz, Teva's legendary CEO, and other executives knew that the company had hit a ceiling in its home market. Teva had succeeded in Israel by distributing and manufacturing under license the drugs of large pharmaceutical companies and by producing generic versions of drugs whose patents had expired.

The generics business may appear to be difficult to scale globally: Each country has its own regulations stipulating how drugs, especially generics, can be manufactured and distributed. Since price is often the deciding factor in the purchase of generics, the margins on them are dramatically lower than those on patent-protected drugs. Like Netafim, Teva made its first foray into the global arena in the United States. But unlike Netafim, which had to worry most about avoiding the attention of the giants, Teva had to concern itself primarily with smaller local players. And instead of focusing on a relatively inconspicuous niche, as Netafim did, Teva used a local player to launch an all-out assault on the U.S. generics market.

Teva's leaders recognized that a firm that could supply a broad portfolio of generics had a bright future in the United States: The Food and Drug Administration's changing regulations (a result of the 1984 Hatch-

Waxman Act) were easing the testing required to obtain approval of generic drugs. Health insurers' focus on cost containment was likely to intensify. And rapidly expanding national pharmacy chains such as CVS and Walgreens were interested in lowering costs by cutting out distribution steps. (For more on these trends, see "Teva Pharmaceutical Industries, Ltd.," Tarun Khanna, Krishna Palepu, and Claudine Madras, Harvard Business School Case 707441.)

Teva's executives astutely concluded that giants like Pfizer and Merck, which had built competencies and reputations as drug discoverers, would not get into generics—especially since doing so would require a separate organizational structure with an entirely different managerial and business culture. At the time, the highly fragmented U.S. generics market featured no major national player. Many of the competing companies served only certain states or regions, and all of them were small, with typically less than \$20 million in annual revenue and expertise in just a few drugs.

Hurvitz figured that Teva could succeed by leveraging its Israeli manufacturing operation (which had FDA approval to supply drugs in the United States), forging partnerships, and making acquisitions. This approach would allow it to sell a portfolio of generics directly to national drug-store chains and create economies of scale

that would provide cost advantages and convenience.

Hurvitz's first move was to persuade W.R. Grace, an American conglomerate with a major specialty chemicals business, to see the huge potential of the generics business. In 1985 Teva and Grace formed a 50/50 partnership called TAG Pharmaceuticals, which lasted until 1991, when Teva bought Grace's share. Grace provided the vast majority of TAG's capital, while Teva, which essentially ran the business, contributed its expertise and its own generics. TAG quickly acquired Lemmon, a generics company based in Pennsylvania that had a solid distribution network. In less than two years, Teva (which used the Lemmon name for its U.S. activities until the mid-1990s) more than doubled Lemmon's revenue, to \$40 million.

U.S. generics manufacturers undoubtedly knew that Lemmon had been purchased by the Teva-Grace partnership. But since Teva was itself small and relatively unknown, these competitors didn't seem to recognize it as a threat until it was too late. They could not match Teva's product breadth, distribution efficiencies, and price points.

By 1993 Teva's U.S. sales surpassed its domestic sales, and the company continued to solidify its lead over local rivals by pursuing FDA approval to produce generic

versions of drugs coming off patent. In the mid-1990s it garnered more FDA approvals of generics than any other company in the world and began to operate under its own name. Teva then began expanding into European markets through a similar acquisition approach—for example, by buying APS Berk, the United Kingdom's second-largest maker of generic drugs, and Hungary's Biogal. In 2012 Teva operated in 60 countries and had revenue of more than \$20 billion.

Focus on Weak Spots

The aim of this strategy is to be better than the giants and the locals at addressing a narrow, well-defined part of a broader problem. Whereas the "evade the giants" strategy applies to situations in which large players cannot effectively serve niche segments with their existing technology and so choose to ignore them, this strategy is typically relevant for serving mainstream customers when the giants are dedicated to providing a one-size-fits-all solution. A company taking this approach selects a market where the giants are offering diversified platform solutions or integrated applications, and concentrates instead on garnering more-extensive knowledge of customers' needs for a specific application or component than the giants or the locals possess and on developing technical superiority in fulfilling those needs.

The Israeli software developer Amdocs provides an illustration. In the early 1980s the firm (then called Aurec Information and Directory Systems) created a software program for automating yellow-pages directories and implemented it at an Israeli yellow-pages company. Boaz Dotan, Amdocs' CEO at the time, quickly realized that growth would require expanding abroad. To better understand the diverse needs of yellow-pages providers, the company took on a few small-scale projects in other countries, such as Ireland and Portugal. It then set its sights on the huge U.S. market, where the 1984 breakup of AT&T was creating opportunities. In the course of a few years, it landed contracts with the yellow-pages

Teva Pharmaceutical

created a new, scalable business model for generic drugs—offering a broad portfolio directly to drugstore chains—by operating through a small regional player and thus not appearing to be a threat to local firms until it was too late.

ANNUAL REVENUE

\$50M

MID-1980S

MORE THAN

\$20B

2012

divisions of Southwestern Bell (SBC), Bell Atlantic, Pacific Bell, and GTE.

There were no technologically capable small software firms in this business, Amdocs noted. And the big players, such as IBM, Microsoft, and Lotus, were focusing on operating systems and spreadsheets that performed a host of software services for enterprises in various industries and for home-computer users. Consequently, they perceived the automation of yellow-pages directories as an unattractive, narrow application.

Through its intense efforts on one business problem, Amdocs developed a compelling value proposition that was much more customer-centric than that of existing products. (For example, it put the client's name, not its telephone number, at the heart of the system and integrated the data management of various entities, such as sales, directory production, and accounts receivables into one interactive system. Amdocs' product allowed big telecom companies to publish up-to-date directories with much greater ease and speed than had been possible—which translated into higher revenue.

After winning much of the U.S. market for yellow-pages software by the late 1980s, Amdocs used the same solution to expand into six additional countries. With its foot in the door, the company was in a strong position to develop and sell other software geared to yellow-pages providers, such as billing and customer-care solutions. After it conquered the yellow-pages category globally with a host of enterprise software applications, the company began offering billing and customer-care solutions to other segments—beginning in 1991 with the landline phone market and then expanding to the mobile market in 1993. Amdocs is now the global market leader in telecommunications-billing-automation solutions, with operations in more than 70 countries and revenue of \$3.3 billion in 2013.

The Next Challenges

Once companies have secured the middle ground in foreign markets, the game is far

Amdocs

became the global leader in telecommunications billing automation by initially concentrating on a narrow application—yellow-pages software—that locals couldn't provide and that giants, intent on offering broad platform solutions, considered unattractive.

ANNUAL REVENUE

BELOW

\$20M

EARLY 1980S

\$3.3B

2013

from over. In our research and our examination of Shaldor's extensive work with globalizing Israeli firms, we find that two new challenges almost always arise.

Figuring out whether, when, and how to venture beyond the original middle ground. A company's leaders will naturally ponder moving into segments that the firm does not yet serve or developing new offerings for existing customers. Both moves typically entail substantial new R&D and marketing capabilities and are fraught with risks.

Success is more likely if the new space also has a viable middle ground and if the credibility the company built in the original space can be leveraged in the new one. Amdocs had both things going for it when it moved into automating landline and mobile billing. In the case of Netafim, even after it had established itself as the dominant player in the drip irrigation market, its leaders wisely decided to steer clear of high-volume irrigation, a segment that lacked

a viable middle ground. Not until 1994—years after its initial success—did the company venture into the landscaping segment, where it targeted administrators of large public projects (such as the Olympic Games and major urban parks) with a new line of precision drippers. And whereas Teva finally started developing innovative drugs (it launched the first one in the late 1990s), it did so only after establishing itself as a global powerhouse in generics and building solid R&D and marketing capabilities.


Preparing for the inevitable battle.

Once a small or midsize company enters the middle ground as a first mover and begins developing it into a lucrative business, the clock starts ticking. At some point the giants will probably take notice of the opportunity and decide to pursue it themselves. And the locals may try to close the operational know-how or technology gap—possibly by reverse engineering the invading firm's solution.

Instead of resting on their laurels, companies must continually strengthen their middle-ground positions. Teva, as we discussed, did so through acquisition. Netafim pursued innovation, introducing scores of new products and models for different crop types, climate conditions, and field configurations.

AS MANY COMPANIES have learned the hard way, foreign expansion is anything but easy—especially the first time. Obstacles are everywhere: in hiring local talent, securing financial resources, building channels to serve new markets, and entering into equity and joint venture deals. But Israeli companies have demonstrated that with an entrepreneurial spirit tempered by humility and careful planning, small and midsize companies can succeed abroad. By pursuing middle-ground strategies, they can become tomorrow's global giants. ▀

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MANAGING YOURSELF

Navigating the Cultural Minefield

Learn how to work more effectively with people from other countries. *by Erin Meyer*

When Aaron arrived in Moscow to take charge of the manufacturing plant his Israeli-owned company had just purchased, he expected to settle in quickly. Although he'd grown up in Tel Aviv, his parents were Russian-born, so he knew the culture and spoke the language well. He'd been highly successful managing Israeli teams and had led a large organization in Canada. Yet six months into his new job, he was still struggling to supervise his team in Moscow. What, specifically, was he doing wrong?

Answering such questions isn't easy, as I've learned from 16 years studying the effects of cultural differences on business success. Although there's been a great deal of research and writing on the subject, much of it fails to present a sufficiently nuanced picture that can be of real use to managers working

internationally or with foreign colleagues. As a result, it's all too common to rely on clichés, stereotyping people from different cultures on just one or two dimensions—the Japanese are hierarchical, for example, or the French communicate in subtle ways. This can lead to oversimplified and erroneous assumptions—the Japanese always make top-down decisions, or the French are indirect when giving negative feedback. It then comes as a surprise when your French colleague bluntly criticizes your shortcomings, or when your Japanese clients want buy-in from the cook and the cleaner before reaching a decision.

Time and again, I find that even experienced and cosmopolitan managers have faulty expectations about how people from other cultures operate. The truth is that culture is too complex to be measured meaningfully along just one or two dimensions.

To help managers like Aaron negotiate this complexity, I have built on the work of many in my field to develop a tool called the Culture Map. It is made up of eight scales representing the management behaviors where cultural gaps are most common. By comparing the position of one nationality relative to another on each scale, the user can decode how culture influences day-to-day collaboration. In the following pages, I present the tool, show how it can help you, and discuss the challenges in applying it.

The Culture Map

The eight scales on the map are based on decades of academic research into culture from multiple perspectives. To this foundation I have added my own work, which has been validated by extensive interviews with thousands of executives who have confirmed or corrected my findings. The scales and their metrics are:

Communicating. When we say that someone is a good communicator, what do we actually mean? The responses differ wildly from society to society. I compare cultures along the Communicating scale

by measuring the degree to which they are high- or low-context, a metric developed by the American anthropologist Edward Hall. In low-context cultures, good communication is precise, simple, explicit, and clear. Messages are understood at face value. Repetition is appreciated for purposes of clarification, as is putting messages in writing. In high-context cultures, communication is sophisticated, nuanced, and layered. Messages are often implied but not plainly stated. Less is put in writing, more is left open to interpretation, and understanding may depend on reading between the lines.

Evaluating. All cultures believe that criticism should be given constructively, but the definition of “constructive” varies greatly. This scale measures a preference for frank versus diplomatic negative feedback. Evaluating is often confused with

Communicating, but many countries have different positions on the two scales. The French, for example, are high-context (implicit) communicators relative to Americans, yet they are more direct in their criticism. Spaniards and Mexicans are at the same context level, but the Spanish are much more frank when providing negative feedback. This scale is my own work.

Persuading. The ways in which you persuade others and the kinds of arguments you find convincing are deeply rooted in your culture's philosophical, religious, and educational assumptions and attitudes. The traditional way to compare countries along this scale is to assess how they balance holistic and specific thought patterns. Typically, a Western executive will break down an argument into a sequence of distinct components (specific thinking), while Asian managers tend to show how the components all fit together (holistic thinking). Beyond that, people from southern European and Germanic cultures tend to find deductive arguments (what I refer to as principles-first arguments) most persuasive, whereas American and British managers are more likely to be influenced by inductive logic (what I call applications-first logic). The research into specific and holistic cognitive patterns was conducted by Richard Nisbett, an American professor of social psychology, and the deductive/inductive element is my own work.

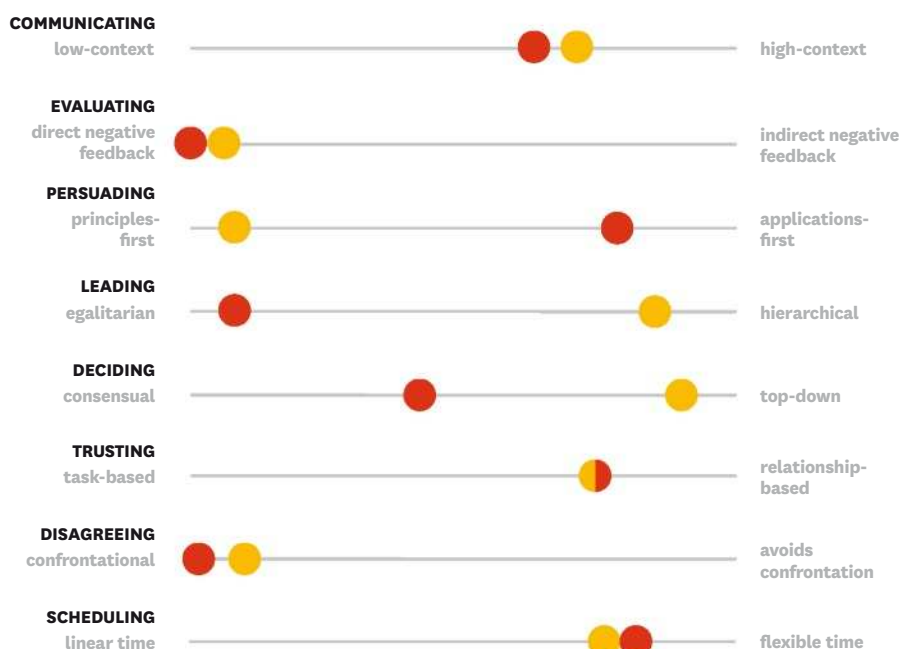
Leading. This scale measures the degree of respect and deference shown to authority figures, placing countries on a spectrum from egalitarian to hierarchical. The Leading scale is based partly on the concept of power distance, first researched by the Dutch social psychologist Geert Hofstede, who conducted 100,000 management surveys at IBM in the 1970s. It also draws on the work of Wharton School professor Robert House and his colleagues in their GLOBE (global leadership and organizational behavior effectiveness) study of 62 societies.

Deciding. This scale, based on my own work, measures the degree to which

Stereotyping people from different cultures on just one or two dimensions can lead to erroneous assumptions. Even experienced, cosmopolitan managers often have faulty expectations.

Comparing Management Cultures: Israel vs. Russia

This Culture Map plots the Israeli and Russian business cultures on eight behavior scales. The profiles are drawn from surveys and interviews of managers from the two countries. While there are many points of similarity, Russians and Israelis diverge with respect to the ways in which they persuade, lead, and decide.



a culture is consensus-minded. We often assume that the most egalitarian cultures will also be the most democratic, while the most hierarchical ones will allow the boss to make unilateral decisions. This isn't always the case. Germans are more hierarchical than Americans, but more likely than their U.S. colleagues to build group agreement before making decisions. The Japanese are both strongly hierarchical and strongly consensus-minded.

Trusting. Cognitive trust (from the head) can be contrasted with affective trust (from the heart). In task-based cultures, trust is built cognitively through work. If we collaborate well, prove ourselves reliable, and respect one another's contributions, we come to feel mutual trust. In a relationship-based society, trust is a result of weaving a strong affective connection. If we spend time laughing and relaxing together, get to know one another on a personal level, and feel a mutual liking, then we establish trust. Many people have researched this topic; Roy

Chua and Michael Morris, for example, wrote a landmark paper on the different approaches to trust in the United States and China. I have drawn on this work in developing my metric.

Disagreeing. Everyone believes that a little open disagreement is healthy, right? The recent American business literature certainly confirms this viewpoint. But different cultures actually have very different ideas about how productive confrontation is for a team or an organization. This scale measures tolerance for open disagreement and inclination to see it as either helpful or harmful to collegial relationships. This is my own work.

Scheduling. All businesses follow agendas and timetables, but in some cultures people strictly adhere to the schedule, whereas in others, they treat it as a suggestion. This scale assesses how much value is placed on operating in a structured, linear fashion versus being flexible and reactive. It is based on the "monochronic" and "polychronic" distinction formalized by Edward Hall.

The Culture Map shows positions along these eight scales for a large number of countries, based on surveys and interviews. These profiles reflect, of course, the value systems of a society at large, not those of all the individuals in it, so if you plot yourself on the map, you might find that some of your preferences differ from those of your culture.

Let's go back to my friend Aaron (who, like other managers profiled later, is not identified by his real name). Aaron used the map to uncover the roots of his difficulties managing his Moscow team. As you can see from the exhibit "Comparing Management Cultures," there are plenty of cultural similarities between Israelis and Russians. For example, both value flexible rather than linear scheduling, both accept and appreciate open disagreement, and both approach issues of trust through a relationship lens. But there are also big gaps. For instance, Russians strongly value hierarchy, whereas Israelis are more egalitarian. This suggests that some of Aaron's management practices, developed through

his experiences in Israel and Canada, may have been misunderstood by—and demotivating to—his Russian team.

As Aaron considered the large gap on the Leading scale, he began to think about how he'd been encouraged as a child to disagree openly with authority figures in his family and community—a stark contrast to the Russian tradition of expecting young people to show deep respect and deference to their elders. “In Israel, the boss is just one of the guys,” he reflected. “But in Russia, when I try to push decision making down and insist that someone on my team is better positioned to make a decision than I am, it often suggests weak leadership.” One of the specific practices getting him into trouble was his tendency to e-mail employees at lower levels of the company without passing through the hierarchical chain or cc'ing their direct bosses; he now understood why the practice made his middle managers so angry.

Sometimes it's fairly easy to bridge the cultural gaps revealed by the mapping process. Aaron found that simply stopping the direct e-mails and going through official channels had a big impact. But some differences are more difficult to overcome, and as you manage across them, it's important to respect the four rules I discuss next. They apply to all the scales, but I'll continue to focus on Leading.

RULE 1

Don't Underestimate the Challenge

Management styles stem from habits developed over a lifetime, which makes them hard to change. Here's a good example: In 2010 Heineken, the Dutch brewing company, purchased a big operation in Monterrey, Mexico, and a large number of Mexican employees are now based at its Amsterdam headquarters. One of these is Carlos, the director of marketing for the Dos Equis brand, who admits that he struggled during his first year in the position:

“It is incredible to manage Dutch people, and nothing like my experience leading Mexican teams. I'll schedule a meeting

to roll out a new process, and during it, my team starts challenging the process, taking us in various unexpected directions, ignoring my process altogether, and paying no attention to the fact that they work for me. Sometimes I just watch them astounded. Where is the respect?”

“I know this treating everyone as pure equals is the Dutch way, so I keep quiet and try to be patient. But often I just feel like getting down on my knees and pleading, ‘Dear colleagues, in case you have forgotten: I-am-the-boss.’”

It's not always easy to bridge cultural gaps. Management styles stem from habits developed over a lifetime, which makes them hard to change.

It didn't take long for Carlos to realize that the leadership skills he had built over the previous decade in Mexico, where more deference to authority is the norm, were not going to transfer easily to the Netherlands. Succeeding would depend on taking an entirely different approach and making ongoing adjustments over the long term. “I realized I was going to need to unlearn many of the techniques that had made me so successful in Mexico and develop others from the ground up,” he said.

RULE 2

Apply Multiple Perspectives

If you are leading a global team with, say, Brazilian, Korean, and Indian members, it isn't enough to recognize how your culture perceives each of the others. You need to understand how the Koreans perceive the Indians, how the Indians perceive the Brazilians, and so on, and manage across the map. As you learn to look through multiple lenses, you may see that on some scales the Brazilians, for example, view the Indians in a very different way than the Koreans do.

Let's return to the case of Heineken. A manager from China who had recently moved to Monterrey assessed the Mexi-

cans this way: “They really think everyone is equal. No matter your age, rank, or title, everyone gets a voice here. They want us to call them by their first name and disagree with them in public. For a Chinese person, this is not at all comfortable.” His take on Mexican culture, of course, was nothing like Carlos's and actually sounded like Carlos's view of Dutch culture.

The point is that where a culture falls on a scale doesn't in itself mean anything. What matters is the position of one country relative to another. On the Leading

scale, Mexico falls somewhere between the Netherlands (one of the most egalitarian countries in the world) and China (strongly hierarchical), and the distances separating them led to these completely contradictory perceptions.

RULE 3

Find the Positive in Other Approaches

When looking at how other cultures work, people tend to see the negative. Steve, an Australian running the business unit of a textile company in China, admits that when he first arrived in the country, he was deeply critical of local leadership practices. The prevailing view, he found, was that “the boss is always right, and even when the boss is very wrong, he is still right.” Having been raised to regard a fixed social hierarchy as an inhumane system, subverting individual freedom, he was uncomfortable in his new environment.

Yet Steve gradually came to understand and respect the Chinese system of reciprocal obligation. “In the Confucian concept of hierarchy,” he says, “it's important to think not just about the lower-level person's responsibility to follow, but also about the responsibility of the higher

person to protect and care for those under him. And there is great beauty in giving a clear instruction and watching your competent and enthusiastic team willingly attack the project without pushing back.”

Carlos at Heineken underwent a similar transformation. He developed an appreciation for his Dutch colleagues’ more egalitarian work style when he started to focus on the creative ideas generated and the problems averted because his employees felt so comfortable openly challenging his views.

Sometimes cultural diversity can cause inefficiency and confusion. But if the team leader clearly understands how people from varied backgrounds behave, he or she can turn differences into the team’s greatest assets. As Steve explains, “Now that I run a Chinese-Australian operation, I think carefully about how to take advantage of the various styles on the team. Sometimes I really need a couple of experts on my staff to tear my ideas apart to ensure that we get the best solution. Sometimes we are under time pressure and I need streamlined reactivity. My overriding goal is to have a complex enough understanding of the various strengths on the team so I can choose the best subteam for each task.”

RULE 4

Adjust, and Readjust, Your Position

More and more teams are made up of diverse and globally dispersed members. So as a leader, you’ll frequently have to tweak or adapt your own style to better mesh with your working partners. It’s not enough to shift to a new position on a single scale; you’ll need to widen your comfort zone so that you can move more fluidly back and forth along all eight.

During his first year in Russia, Aaron invested significant time in watching how the most successful local leaders motivated their staff members. He learned step-by-step to be more of a director and less of a facilitator. “It worked,” he said, “but when I returned to Israel, I was


then accused of centralizing too much. Without realizing it, I had brought what I had developed in Russia back home.” Gradually Aaron got better at adapting his behavior to the individuals and context at hand.

As Aaron, Carlos, and Steve all learned, to navigate cultural differences, you might need to go back to square one. Consider which leadership styles are most effective in disparate localities and with people of diverse nationalities. Check your knee-jerk tendencies—and learn to laugh at them. Then practice leading in a wide variety of ways to better motivate and mobilize groups who follow in different ways from the folks back home.

WHETHER WE work in Düsseldorf or Dubai, Brasília or Beijing, New York or New Delhi,

we are all part of a global network. This is true in the office or at a meeting, and it is true virtually, when we connect via e-mail, videoconference, Skype, or phone. Today success depends on the ability to navigate the wild variations in the ways people from different societies think, lead, and get things done. By sidestepping common stereotypes and learning to decode the behavior of other cultures along all the scales, we can avoid giving (and taking!) offense and better capitalize on the strengths of increased diversity. ♥

HBR Reprint R1405K

 **Erin Meyer** is an affiliate professor of organizational behavior, specializing in cross-cultural management, at INSEAD in Fontainebleau, France. She is the author of *The Culture Map: Breaking Through the Invisible Boundaries of Global Business* (PublicAffairs, 2014).



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Case Study



Robert I. Sutton and **Huggy Rao** are professors at Stanford University and the coauthors of *Scaling Up Excellence: Getting to More Without Settling for Less* (Crown Business, 2014).

An educational-gaming firm rethinks its talent strategy. *by Robert I. Sutton and Huggy Rao*



The Experts



Noam Bardin, CEO, Waze



Verena Delius, cofounder and managing partner, Fox & Sheep

Can a Volunteer-Staffed Company Scale?

The map projected on the screen had a dot for every location where a BrainGame volunteer lived. Lena Klug, the CEO, was proud of the company's global reach. There was even a dot in Samoa—a long way from the company's Berlin office.

Now four years old, BrainGame had started small. Its founder, Hans Faust, couldn't afford to hire developers at the outset, so he'd enlisted volunteers to help design, build, test, and debug the new kind of online game he wanted to bring to the world. Many people were willing to work without pay because they believed in his mission: to create positive, nonvio-

lent, commercially viable products that reward empathy and caring rather than aggression and revenge.

Klaus Hoch, BrainGame's director of community and the person responsible for keeping the company's thousands of volunteers engaged and happy, was giving his monthly update to Lena and the other top executives. He rattled off an impressive list of numbers detailing how many issues had been surfaced, bugs fixed, and new game versions created.

"You forgot one important figure, Klaus," Rutger Ekberg, the head of product development, said with a smile. "More than a thousand crappy ideas proposed."

HBR's fictionalized case studies present dilemmas faced by leaders in real companies and offer solutions from experts. This one is based on the Stanford Graduate School of Business Case Study "Mozilla: Scaling Through a Community of Volunteers" (product no. HR35-PDF-ENG), by Hayagreeva (Huggy) Rao, Robert I. Sutton, and David W. Hoyt, which is available at hbr.org.

Everyone laughed. As important as the volunteers were to BrainGame, they were an opinionated group and weren't always easy to manage.

"That's not exactly fair," Klaus said once the laughter had died down. "Some of our best product ideas came from this group of—"

Klara Eberhart, the head of engineering, interrupted. "Yes, we all know that the idea for VoyageFinder came from Henri, our star volunteer in Nice, but it took a lot of refinement—internal and external—to get it to where it is today," she said. "And our biggest hits, Bot Force and Living Colony, both came from in-house brainstorming and development." After a pause she added, "Maybe it's time we grew up and brought in some real developers."

Klaus and Klara had been butting heads over this issue for some time, so Lena wasn't surprised when the community director immediately spoke up.

"We *have* real developers," Klaus said sharply. Indeed, the company had hired a small group of them in the past two years.

"We should be investing in our volunteers, not turning our backs on them. They're our biggest enthusiasts."

"But why pay for more staff when we have thousands of people who are willing to do the work at no cost? Besides, this is what our business model is based on." Pointing to the map up on the screen, he said, "We're not just a company, we're a movement."

Klara wouldn't let it go. "I know I say this all the time, but just because that's been our model up to this point doesn't mean it has to be going forward," she said. "There's too much risk in it."

"And inefficiency," Rutger chimed in. He explained that his team was spending close to half its time responding to volunteers' new game proposals. "And none of

them are good. In fact, we haven't been able to turn one idea from a volunteer into a viable product since our first year. We're wasting our time with them."

Hiring more developers wasn't out of the question. BrainGame's revenue from ad sales had jumped in the past year, so the company had some cash on hand. And new investors were starting to show interest following the release of Living Colony.

"This is not the time to move away from our roots," Klaus argued. "We should be investing in our volunteers, not turning our backs on them. They're our biggest enthusiasts. We've barely spent anything on marketing, because they do it all for us." Instead of having traditional product launches, BrainGame always just released its latest game to its volunteers and let them promote it to their networks. The viral approach had worked brilliantly so far. "Our success depends on keeping these people happy. And some of them are already upset over the new rules about logging fixes. They think we're starting to act like all the other companies. We need

to double down on our efforts to engage and motivate them." Klaus folded his arms, but Klara wasn't finished.

"They're disgruntled because their expectations are too high," she said. "We need to bring in people whose expectations we can manage." She proposed hiring 15 to 20 new engineers. "When we release the next two games, investors are going to come knocking on our door, and amateur hour won't cut it anymore."

"Investors are already knocking," Lena said, trying to refocus the conversation. She explained that BrainGame's current backers had been asking about growth plans, and Lena was pitching new groups

for a round of financing in two weeks. "Everyone's wondering how we're going to scale. The numbers are all there. We've got a good pitch, but we need to sort out our story. Are we going to stick with volunteers? Or are we going to bring in more hired guns to help us grow?"

Too Many Risks

Klara caught Lena's arm on the way out of the meeting.

"Want to go over to Five Elephant?" she asked, referring to a coffee shop just a few blocks from the office. The two women had been colleagues at another tech start-up before joining BrainGame, and they often ducked out together for lattes.

As they made their way through the narrow Kreuzberg streets, Klara brought up the discussion they'd just had. "There are too many risks in relying so heavily on volunteers. What if a game fails because we trusted a fix to the crowd? How do we explain that to an angry investor? We need to bring in people we can count on and manage. You see my point, right?"

"Yes, of course I do," Lena said. "But I also wonder if we're being too German about this. Insisting on precision may not get us where we want to go. Maybe a slightly messier process could work in the long term. It's worked until now."

"Rutger's concerned too, and he's Swedish," Klara replied. Both women laughed. BrainGame's employees came from more than 10 countries—they were as diverse as the volunteers—and everyone enjoyed poking fun at their cultural differences.

"Seriously, though, hiring decisions say more about a company than anything else," Klara said. "We want to show that we're for real, that we can afford to bring in the right talent."

At the coffee shop, they ordered their drinks and sat down at a corner table. Klara kept talking, explaining how hard it was to work with the volunteers: Many of them would work only on certain projects, and none could be held to deadlines or deliverables. Lena had heard it all before,



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"I don't know how we're expected to manage people when their only job description is 'Be yourself and do what you want.'"

but she listened patiently. "Project management is a nightmare," Klara went on. "I don't know how we're expected to manage people when their only job description is 'Be yourself and do what you want.' We can't play the role of idealistic underdog forever."

Thousands of Brand Evangelists

When the women arrived back at the office, Andrew Maslin, BrainGame's head of marketing, was waiting for them in the lobby.

"I heard you went out together, and I figured Klara was going to make her case—so I want to make mine," he said.

"We would've gotten you a latte if we'd known," Lena teased.

The three of them stepped into the elevator. The old factory building still had original freight elevators with doors that had to be closed by hand.

"Klaus is right," Andrew said. "It would be a huge mistake to turn our backs on the community. We've got thousands of brand evangelists. If we kick them to the curb, we're going to be left with thousands of brand haters."

He paused to open the elevator door and then continued. "Our story is perfect now: Small company takes on the gaming industry, fueled by the hard work of people who care about the cause. But if we start hiring hotshot developers, you'd better believe the media will change that narrative. It'll be: Gaming company that pushes empathy shows little for the volunteers who got it where it is today."

"Enough, enough," Klara said, plopping down on the couch in the reception area. "It's not like we're going to banish them from working with us. We're just bringing

in people who actually know what they're doing and paying them."

"Do we want people to build our games because they get paid to, or because they love what we do and support our mission?" Andrew asked, looking to Lena for a response.

"I agree that the all-volunteer ethos makes a great story for the press," she said. "But does it make a great company?"

What Investors Want

Later that day Guy Renou, BrainGame's CFO, sat down in Lena's office. They had blocked off two hours to get ready for the upcoming investor pitch.

"First things first," he said. "What's our story?"

Lena put her head in her hands.

"Everyone's got an opinion. Klara and Rutger, of course, think we should be an execution-focused company that hires the best and brightest engineers. Klaus and Andrew are pushing the cause-driven company that has a slew of evangelists working on and promoting its products. I think I'm closer to Klaus and Andrew on this, but when I consider the pitch, I wonder if we're going to be taken seriously if we rely so heavily on volunteer developers."

"You know me," Guy replied. "I love the idea of not paying for full-time developers. We've saved a ton of money by avoiding them. But it's not like Klaus and his team work for free; managing the volunteers and keeping them happy costs money. Plus, think about the surprises. Let's not forget the trouble in year two when they stopped working in protest over the new bug-reporting system. That almost did us in."

"Right. I can't decide whether Klaus has drunk his own Kool-Aid or is right that this is a movement. Is it even possible to lead a movement?"

Guy shook his head. "Last I checked, movements didn't have a CEO or a CFO."

"What happens to the balance sheet if we bring in paid developers?" Lena asked.

"We can afford to hire 10 or 15 now, and more if we get this next round of funds," Guy said. "But that's assuming Klaus's army doesn't get angry and stage another revolt. If our volunteers feel they're being usurped and leave us, it will take hundreds of paid engineers to replace them."

"What about the investors?" she asked.

"I think the current ones like the idea of supporting a company that will change the world with the help of volunteers. But we've got to think about what future investors want as well."

Guy paused for a moment, as he often did, to collect his thoughts. "It really comes down to the kind of company you want BrainGame to be, Lena."

"I know that," she said impatiently.

"I took over for Hans because I believed in his vision."

"But was this his vision? I was here with him when he started the company. Yes, he wanted to revolutionize the gaming industry, but he opted for volunteers mainly because he needed a cheap way to start."

Lena knew this to be true. When Hans left to focus on another start-up, he told her he wasn't sure how far the existing model would get them. Still, it was core to the company's identity, and although it wasn't always elegant, it had worked well so far.

"Back to my first question," Guy said. "What's our story?"

Should BrainGame continue with its volunteer model or bring in paid developers?

See commentaries on the next page.

The Experts Respond



Noam Bardin is the CEO of the crowdsourced-mapping company Waze.

THERE'S NO doubt that Lena should continue with the volunteer model. It doesn't matter whether she calls it a company or a movement—BrainGame's community is part of its DNA and one of its greatest assets. The company will grow not in spite of the volunteers but because of them.

Sure, paid programmers will do what you tell them to (at least theoretically), and volunteers will do what they want. That's difficult, but the benefits of working with volunteers far outweigh the costs. These people bring much more than free labor—they provide avid gamers' insights, and they distribute and promote the products.

At Waze, we know the perks of working with unpaid enthusiasts. We rely on volunteers for up-to-date information about traffic and roads in their locales. Someone in South Carolina might submit data on his area because traffic there matters to him and he wants to make his town a better place to live. Because he really cares, we can trust him to do a good job. The same is true of BrainGame. Its volunteers have joined the cause because they really care.

There are challenges, too, of course. For example, we sometimes comply with

volunteers' requests for features we don't think are necessary; that's part of the tax we pay for their free work. We don't agree to everything, though, and BrainGame

build a software company. BrainGame has something better: a community. This is an attractive pitch to money men, and the valuation Lena would get by emphasizing

Companies try hard to build engaged workforces and fan bases. If Lena decides to transform BrainGame, she will sacrifice a huge advantage.

shouldn't either. One role of the volunteers is to submit ideas, good and bad—but it's the company's job to make and explain resource-allocation decisions.

With regard to complaints from the community, BrainGame may see them as just another annoyance, but they actually serve an important purpose: keeping the team honest about its work and vision. The company may still want to hire some additional in-house developers. But those employees should be tasked with building tools that make it easier to work with the volunteers, not with replacing the volunteers.

Will investors take a volunteer-based company seriously? You bet. Anyone can

community over gaming would reflect that. The company has unlimited scaling capabilities at no additional cost—it could be running 10 games or a hundred.

As a fellow CEO of a volunteer-based company, I empathize with Lena's struggle. Here at Waze, we often ask ourselves the same questions she's asking. But we've always returned to the core of who we are: a community. It's an enviable position. Corporations try all the time to build enthusiastic, engaged workforces and fan bases, but they frequently fail. If Lena decides to transform BrainGame into a traditional software company, she will be sacrificing a huge advantage—one that she will never be able to get back.



WHAT WOULD YOU DO?

SOME ADVICE FROM THE HBR.ORG COMMUNITY

WHY DOES Lena need to choose between paid and volunteer developers? The two groups push the company to grow in different ways. A simple middle ground would be to hire from the volunteer army. Maybe BrainGame could organize a hackathon and give the winners full-time gigs.

Gaurav Manchanda, manager, marketing and strategy, Praxair

CAN WE please stop promoting unpaid work? Ideally people would choose jobs they care about, but they need to get paid.

BrainGame may want to change its industry, but it won't change anything if it can't pay the people who devote their time and love to developing its ideas.

Marcela Torres, postgrad student, University College London

ALTHOUGH THE model is profitable now, there appears to be a ceiling. If the company continues in this direction, in five or 10 years investors—current and future—may become frustrated. I would recommend bringing in top programmers and engineers gradually. That way the volunteers won't revolt.

Andrew Lisi, community groups pastor, Mars Hill Church

IT'S TOO risky to change the business model now. There's a lot of uncertainty about how the volunteers would respond. If some left, BrainGame might have to replace them, which would mean additional costs. Plus, the company doesn't know how effective the new model would be in helping it grow.

Alvin Tsui, development analyst, Qualicom Innovations



Verena Delius is a cofounder and the managing partner of Fox & Sheep, a Berlin-based company that develops apps for kids.

BRAINGAME NEEDS to grow up and bring in paid designers and developers as soon as possible.

Gaming is a hit-driven business. When you're creating a game, you never know whether audiences will like it, and when one takes off, nobody really knows why. We do know, however, that the best software development happens in-house; it isn't outsourced. Designers and developers are a core asset for any gaming company. So BrainGame needs to have a reliable team whose members work together on a daily basis and can communicate easily.

It will be tough for the company to get Series A funding if it's dependent on a crowd of unpaid volunteers. A movement, as Klaus calls it, can die off at any time.

In software development, creativity matters a lot, but execution is king. Investors want to know that a company has reliable resources and processes.

Because of that risk, investors won't go for it. The gaming industry is already full of uncertainty; Lena doesn't need to add any more.

Sure, volunteers are passionate, but employees can—and do—follow their hearts too. Lena should look for employees who, like her volunteers, believe in the cause, but who also have the experience and ability to build and ship games in a structured way—generating ideas, agreeing on a direction, and carrying out the plan on schedule.

In the world of software development, creativity matters a lot, but execution is undoubtedly king. Investors might like to see hundreds of prototypes and concepts, but because only two or three games will make it in the end, they also want to know that a company has reliable resources and clear processes and can quickly learn from its mistakes.

However, I'm not suggesting that Lena turn her back on the volunteers. She

can keep them on board without relying on them 100% as long as she goes about making the transition to the paid-developer model very carefully. Her first step should be to define how BrainGame will continue to get input from the crowd. There are four fertile areas in which volunteers can play an ongoing role: new game ideas, feedback on prototypes, alpha or beta testing, and bug fixes. These are all relatively discrete jobs that are easy to manage. This strategy has worked well for us at Fox & Sheep: We bring volunteers in when we need their help and focus them on the tasks for which they're best suited—primarily testing.

Once BrainGame has figured out which volunteers will help with which phases,

Lena should make sure that the company has the tools to easily manage them and collect their input. She should also reward them for their work—by providing a sneak preview of games before they come out, by offering virtual game currency when they launch, or by supplying games free. With a more-structured approach of this sort, BrainGame will lose some volunteers who want greater influence—but that's OK. In my experience, you can always find gamers out there who are willing to test new products.

A hit game needs millions of players, not just thousands of developer-evangelists. And a game doesn't make it because of what the press says about the company that built it. Success depends on having a team of designers and developers who are not only committed and innovative but also diligent and disciplined. ▢

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**Harvard
Business
Review**

Synthesis

A review of emerging ideas in the media



Leading with Humor

by Alison Beard

The workplace needs laughter. According to research from institutions as serious as Wharton, MIT, and London Business School, every chuckle or guffaw brings with it a host of business benefits. Laughter relieves stress and boredom, boosts engagement and well-being, and spurs not only creativity and collaboration but also analytic precision and productivity.

And yet, as the MBA candidate Eric Tsytsylin recently put it in a video presentation featured on the Stanford website, working adults are “in the midst of a laughter drought.” Babies laugh, on average, 400 times a day; people over 35, only 15. A recent study of Gallup data for the U.S. found that we laugh significantly

less on weekdays than we do on weekends. Work is a sober endeavor.

So how, exactly, can organizations and individual leaders get their employees to laugh more? Screen Will Ferrell movies in the break rooms? Schedule off-site improv sessions? Start every meeting with a joke?

The problem, most would say, is that humor is subjective: What you find amusing or side-splittingly hilarious, Mary in marketing and Amir in accounting most certainly do not. But the authors of two recent books on the subject—*The Humor Code: A Global Search for What Makes Things Funny* and *Inside Jokes: Using Humor to Reverse-Engineer the Mind*—disagree. They believe that there’s a formula for what makes all people laugh, and they

work extremely hard, in very different ways, to prove their cases.

In *The Humor Code*, Peter McGraw, a marketing and psychology professor at the University of Colorado Boulder, and the journalist Joel Warner travel from the comedy clubs of Los Angeles to the remote villages of Tanzania and the Amazon to (casually) test their theory that humor rests on “benign violation”: That is, something provokes laughter when it is “wrong, unsettling, or threatening” but also seems “okay, acceptable, or safe.” Think of tickling, teasing, a mix-up that seems funny after the fact, or a dirty joke. The authors acknowledge that “it’s easier to fail with humor than succeed” (indeed, some of their own attempts fall horribly flat) and



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that comedy is context-dependent—"a delicate operation built on layers of shared knowledge...and innuendo." But they still contend that if you know your crowd, the benign violation formula will work.

The men behind *Inside Jokes*—Matthew M. Hurley, of Indiana University; Daniel C. Dennett, of Tufts; and Reginald B. Adams Jr., of Pennsylvania State University—take a much more academic approach and arrive at a different, though perhaps related, theory. They say (in typically arcane prose): "Humor happens when an assumption is epistemically committed to in a mental space and then discovered to have been a mistake." Translation: We laugh when we find that something we've momentarily believed to be the case isn't in fact true, and at others in the same predicament, and at stories about such situations, especially if they are linked to pleasures of other kinds, such as insight, schadenfreude, superiority, or sexual titillation. The simplest examples are puns and pranks, but the authors spend a lot of pages applying their analysis to various types of humor, and they definitely bored me into submission.

Unfortunately, these books offer little practical advice for those seeking to ramp

up laughter levels at work. That's because they focus mainly on jokes—the kind you hear at stand-up shows or on *Saturday Night Live*. As a manager, you might be able to slip one of those into a speech or a presentation from time to time, but you're certainly not going to walk around the office lobbing one-liners like Bob Hope, cursing like Richard Pryor, or slinging insults like Ricky Gervais.

How, then, can you put the work of these authors to good use? I do think their

"A priest, a rabbi, and a nun walk into a bar, and the bartender says, 'What is this, a joke?'"

Hurley, Dennett, and Adams, *Inside Jokes*

theories can help us understand what kind of humor works at the office and why. Self-deprecating stories shared between peers—check. Light teasing among longtime colleagues—check. Even privately poking fun at outsiders who prompt the same reaction from your entire group (for example, arrogant consultants or clueless interns)—check.

Of course, all of this must be done with extreme care. While both books note that humor emphasizing superiority is universally effective (every culture has its own version of the dumb blonde joke), discriminatory comments are obviously a punishable offense. New research from Gang Zhang, a doctoral candidate at LBS, shows that although employees admire and feel more motivated by leaders who use humor effectively, they have less respect for those who try to be funny and fail or who make fun of themselves. And, needless to say, workplace comedy flies in some countries a lot better than it does in others; as McGraw and Warner note, in Japan "hilarity...is reserved for certain locales....Don't try joking in the office."


Perhaps it's best, then, to look at some of the broader recommendations summarized at the end of *The Humor Code*:

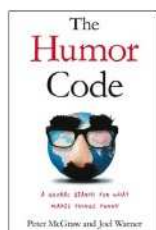
- It's not whether or not you're funny, it's what kind of funny you are. Be honest and authentic.
- If you can't be "ha-ha" funny, at least be "aha!" funny. Cleverness is sometimes good enough.
- Good comedy is a conspiracy. Create an in-group.
- Don't be afraid to chuckle at yourself. It signals everything is okay.
- Laughter is disarming. Poke fun at the stuff everyone's worried about.

(One more useful tip: To tell whether a workmate's amusement is real, not faked, look for crinkling around the eyes; if it's there, you've got true "Duchenne" laughter, named for the French physician who identified it.)

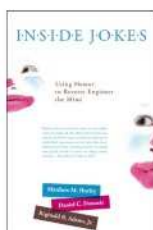
Tsytlylin offers similar directives in his talk, along with some concrete examples of companies that carry them out—for example, Yahoo and IBM have crazy names like Kajagoogoo for their meeting rooms, Hulu hosts taco-eating contests and Airzooka tournaments, and Southwest chose the whimsical stock symbol LUV. He encourages those of us in the business world to think about the power of laughter a lot more than we do now. It should factor into how we communicate, allocate our time, and even recruit and hire.

I agree. My favorite meetings start with some witty banter—jokes about the latest IT upgrade, a funny story about a difficult author, some gentle ribbing over a missed deadline. My favorite colleagues make me laugh with personal stories, random e-mails, and occasionally off-color comments. And my favorite bosses know how to be funny and elicit the same fun-loving behavior from their employees. McGraw and Warner cite a line worth remembering from the anthropologist Edward Hall: "If you can learn the humor of a people and really control it, you know that you are also in control of nearly everything else." ♥

 **Alison Beard** is a senior editor at *Harvard Business Review*.



The Humor Code:
A Global Search
for What Makes
Things Funny
Peter McGraw and
Joel Warner
Simon & Schuster, 2014



**Inside Jokes: Using
Humor to Reverse-
Engineer the Mind**
Matthew M. Hurley,
Daniel C. Dennett,
and Reginald B.
Adams Jr.
MIT Press, 2011



**"Laughter: Serious
Business"**
Eric Tsytlylin
www.gsb.stanford.edu/lowkeynotes

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Executive Summaries May 2014

SPOTLIGHT ON LEADING THE FOCUSED ORGANIZATION



“Management is doing things right; leadership is doing the right thing,” Peter Drucker famously said. This package takes three perspectives on doing the right thing: what tasks leaders at different levels should focus on, the management of organizational time, and if-then planning for teams.

LEADERSHIP

Blue Ocean Leadership

W. Chan Kim and Renée Mauborgne | page 60

Ten years ago, two INSEAD professors broke ground by introducing “blue ocean strategy,” a new model for discovering uncontested markets that are ripe for growth. In this article, they apply their concepts and tools to what is perhaps the greatest challenge of leadership: closing the gulf between the potential and the realized talent and energy of employees.

Research indicates that this gulf is vast: According to Gallup, 70% of workers are disengaged from their jobs. If companies could find a way to convert them into engaged employees, the results could be transformative. The trouble is, managers lack a clear understanding of what changes they could make to bring out the best in everyone. Here, Kim and Mauborgne offer a solution to that problem: a systematic approach to uncovering, at each level of the organization, which leadership acts and activities will inspire employees to give their all, and a process for getting managers throughout the company to start doing them.

Blue ocean leadership works because the managers’ “customers”—that is, the people managers oversee and report to—are involved in identifying what’s effective and what isn’t. Moreover, the approach doesn’t require leaders to alter who they are, just to undertake a different set of tasks. And that kind of change is much easier to implement and track than changes to values and mind-sets.

HBR Reprint R1405C

ORGANIZATION & CULTURE

Your Scarcest Resource

Michael Mankins, Chris Brahm, and Gregory Caimi | page 74

Most companies have elaborate procedures for managing capital. They require a compelling business case for any new capital investment. They set hurdle rates. They delegate authority carefully, prescribing spending limits for each level. An organization’s *time*, by contrast, goes largely unmanaged.

Bain & Company, with which all three authors are associated, used innovative people analytics tools to examine the time budgets of 17 large corporations. It discovered that companies are awash in e-communications; meeting time has skyrocketed; real collaboration is limited; dysfunctional meeting behavior is on the rise; formal controls are rare; and the consequences of all this are few. The authors outline eight practices for managing organizational time. Among them are: Make meeting agendas clear and selective; create a zero-based time budget; require business cases for all initiatives; and standardize the decision process.

Some forward-thinking companies bring as much discipline to their time budgets as to their capital budgets. As a result, they have liberated countless hours of previously unproductive time for executives and employees, fueling innovation and accelerating profitable growth.

HBR Reprint R1405D

TEAMS

Get Your Team to Do What It Says It’s Going to Do

Heidi Grant Halvorson | page 82

It’s one thing to set goals—and entirely another to get the people in your organization to actually accomplish them. To make the leap from vision to execution, you can’t just define what needs doing; you also need to spell out the details of getting it done. One motivational tool that enables this is “if-then planning,” which helps people express and carry out their intentions.

If-then plans work because contingencies are built into our neurological wiring, says social psychologist Halvorson. Humans are very good at encoding information in “if x, then y” terms and using such connections to guide their behavior, often unconsciously. When people decide exactly when, where, and how they’ll fulfill a goal, they create a link in their brains between the situation or cue (If or when x happens) and the behavior that should follow (then I will do y). This creates powerful triggers for action.

To date, most of the research on if-then plans has focused on individuals, but new studies show that they’re very effective with groups, improving performance by sharpening focus and prompting members to execute key activities in a timely manner.

If-then planning helps organizations avoid poorly expressed goals, groupthink, the tendency to cling to lost causes, and other problems. It pinpoints conditions for success, increases everyone’s sense of responsibility, and helps close the troublesome gap between knowing and doing.

HBR Reprint R1405E

Features

THE BIG IDEA

GENERAL MANAGEMENT

Beware the Next Big Thing

Julian Birkinshaw | page 50



Innovative management ideas that bubble up in other companies pose a perennial quandary for leaders: Should you attempt to borrow new ideas, and if so, which ones and how? Even the most promising practices can be disastrous if they're transplanted into the wrong company, writes Julian Birkinshaw of London Business School.

Broadly speaking, there are two ways to borrow from innovative companies, he argues. The first, observe and apply, is the most commonly used approach for adopting new management ideas. It can and does work well, but only under limited sets of circumstances: when the observed practice easily stands alone or involves just a small constellation of supporting behaviors (think of GE's well-regarded succession-planning process) and when a company's management model or way of thinking is very similar to the originator's (think of two software firms that both use the Agile development approach).

The second method is to extract a management practice's essential principle—its underlying logic—and ask a series of questions to determine if it is right for your firm, including: How is your company different from the originating firm? Are the goals of the practice important to your organization?

Many management innovations are launched with great fanfare, only to fade in popularity. With careful analysis, you can avoid falling prey to this hype cycle. And even if it turns out that a borrowed idea isn't right for you, the analysis will help you better understand your own management models and sharpen your practices.

HBR Reprint R1405B

GOVERNANCE

How to Outsmart Activist InvestorsBill George and Jay W. Lorsch
page 88

Nearly every business day they target a new company: More than 200 activist campaigns were launched in 2013.

Since the start of the 21st century, a new breed of shareholder—the activist hedge fund—has frequently played a decisive role in interactions between corporations and markets. The game of these activists is simple: They buy stocks they view as undervalued and pressure management to do things they believe will raise the value, such as giving more cash back to shareholders or shedding divisions that the activists think are driving down the stock price. With increasing frequency they get deeply involved in governance—demanding board seats, replacing CEOs, and advocating specific business strategies.

The authors have identified six ways in which to fend off activist challenges or use them to improve your organization: (1) Have a clear strategic focus and stick to it. (2) Analyze your business as an activist would. (3) Have your external advisers lined up in advance and familiar with your company. (4) Build board chemistry. (5) Perform in the short run against declared goals. (6) Don't dismiss activist ideas out of hand.

HBR Reprint R1405F

ORGANIZATION & CULTURE

Managing the “Invisibles”

David Zweig | page 96



Even in an age of relentless self-promotion, some extremely capable professionals prefer to avoid the spotlight. “Invisibles” work in fields ranging from engineering to interpreting to perfumery, but they have three things in common: They are ambivalent about recognition, seeing any time spent courting fame as time taken away from the work at hand. They are meticulous. And they savor responsibility, viewing even high pressure as an honor and a source of fascination.

Something else unites Invisibles: They represent a management challenge. The usual carrots don't motivate them; however, managers can take several steps to ensure their satisfaction. Leaders should recognize who their Invisibles are; decide if they want more Invisibles on the team; reward them fairly, soliciting reports on their accomplishments; make the work more intrinsically interesting; and talk to the Invisibles about what works best for them.

These actions are well worth taking, as Invisibles not only bring exceptional levels of achievement to an organization but quietly improve the work of those around them, elevating performance and tone across the board.

HBR Reprint R1405G

LEADERSHIP

From Purpose to ImpactNick Craig and Scott Snook
page 104

Over the past five years, there's been an explosion of interest in purpose-driven leadership. Academics, business experts, and even doctors make the case that purpose is a key to exceptional leadership and the pathway to greater well-being.

Despite this growing understanding, however, a big challenge remains. Few leaders have a strong sense of their own individual purpose, the authors' research and experience show, and even fewer can distill their purpose into a concrete statement or have a clear plan for translating purpose into action. As a result, they limit their aspirations and often fail to achieve their most ambitious professional and personal goals.

In this article, the authors present a step-by-step framework that leaders can use to identify their purpose and develop an impact plan to achieve concrete results. Effective purpose-to-impact plans use language that is uniquely meaningful to the individual, rather than business jargon. They focus on future, big-picture aspirations and work backward with increasing specificity. And they emphasize the individual's strengths and encourage a holistic view on work and family.

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How I Did It

LEADERSHIP

The CEO of TJX on How to Train First-Class Buyers

Carol Meyrowitz | page 45

TJX operates seven brands in the United States, Canada, and Europe—including T.J. Maxx, Marshalls, and HomeGoods—and is the leading retailer of off-price apparel and home fashions in the U.S. and worldwide. It operates very differently from traditional retailers: Each of its stores has a vast number of SKUs, offering customers virtually an entire mall within about 23,000 square feet of selling space; and to find the right products, it sources from more than 16,000 vendors around the globe. Customers expect to have what Meyrowitz calls a “treasure-hunt shopping experience” when they enter a TJX store.

The company's buyers are crucial to providing the merchandise for that experience, and its CEO puts a high priority on teaching and developing them. They must



thoroughly understand consumer and fashion trends and the right value for every product TJX sells.

They must be opportunistic and extremely flexible. And they must develop relationships with the vendors. Meyrowitz's long-term vision is to grow TJX revenue from \$26 billion today to \$40 billion and beyond—and that will require many more buyers who are entrepreneurial, empowered, and team-oriented. “They need to be intelligent risk takers,” she says. “They need to have great instincts and to be comfortable making big decisions.”

HBR Reprint R1405A

Managing Yourself

Navigating the Cultural Minefield

Erin Meyer | page 119



As we increasingly work with colleagues and clients who come from all parts of the world, it is

vital to understand how cultural differences affect business. Yet too often we rely on clichés and stereotypes that lead us to false assumptions. To help managers negotiate the complexity of an international work team, INSEAD professor Erin Meyer has developed a tool called the Culture Map, which plots the positions of numerous nationalities along eight behavior scales: Communicating, Evaluating, Persuading, Leading, Deciding, Trusting, Disagreeing, and Scheduling. Meyer suggests that comparing the relative positions of different

nationalities along these scales can help us decode how culture influences workplace dynamics. She adds four important rules:

Don't underestimate the challenge. Management and work styles stem from lifelong habits that can be hard to change.

Apply multiple perspectives. Be aware of your own expectations and behaviors, but also consider how members of other cultures perceive you and fellow teammates.

Find the positive in other approaches. The differences that people of varied backgrounds bring to a work group can be great assets.

Continually adjust your position. Be prepared to keep adapting your behavior to meld with the styles of your colleagues.

HBR Reprint R1405K

THE GLOBE

STRATEGY & COMPETITION

Right Up the Middle: How Israeli Firms Go Global

Jonathan Friedrich, Amit Noam, and Elie Ofek | page 113



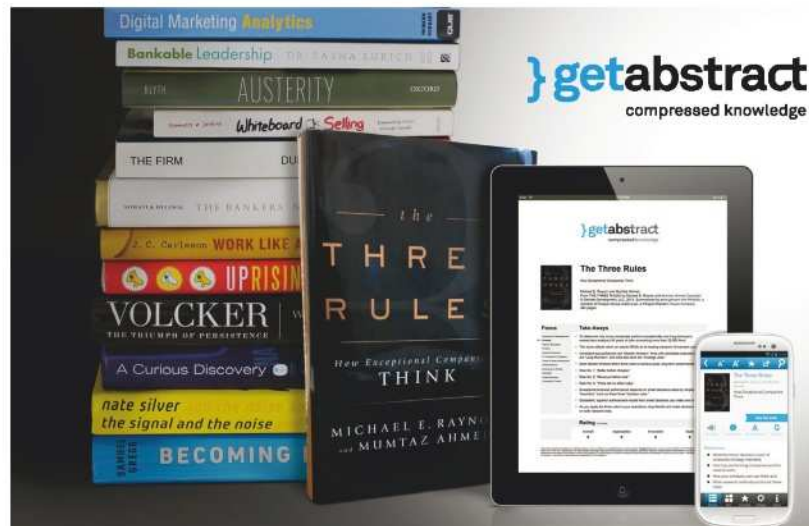
Small and midsize companies that want to expand abroad often face a daunting task: finding the sweet spot between multinationals, with their extensive resources and economies of scale, and the smaller players in the foreign markets,

which have an intimate understanding of local conditions.

The more than 75 Israeli companies that have transformed themselves into global players in the past four decades prove that it can be done. Their approach: Focus on countries and regions that offer an opportunity that multinationals don't find attractive and local companies can't adequately address, and then penetrate this middle ground in ways that won't immediately trigger a response. Given the size of their home market and their limited opportunities in the Middle East, Israeli companies have not had many other options for pursuing growth.

The stories of three Israeli companies—Netafim, Teva Pharmaceutical, and Amdocs—illustrate tactics for seizing the middle ground: Evade the giants, disguise yourself as a local, and focus on weak spots.

HBR Reprint R1405J



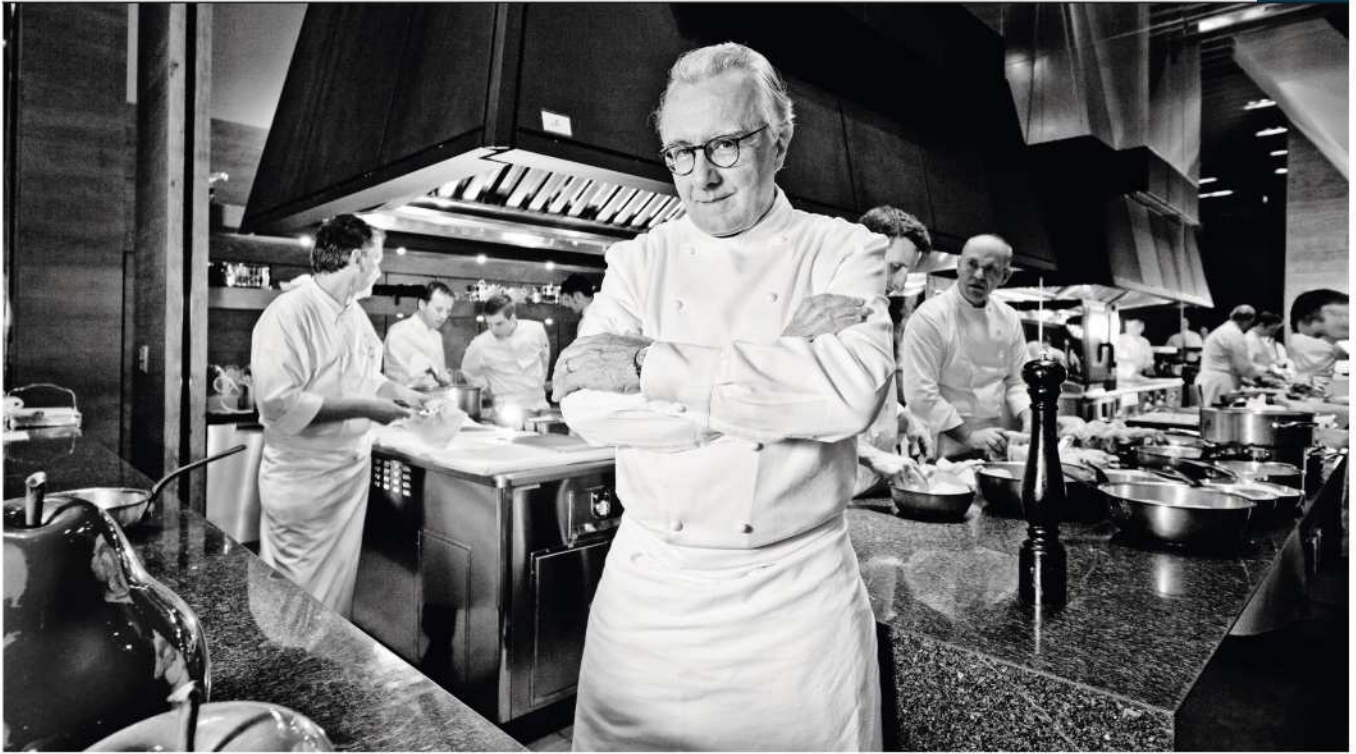
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Life's Work

HBR.ORG For Ducasse's thoughts on other culinary greats, go to hbr.org/ducasse.



Alain Ducasse learned to love food on his parents' farm. He received his first three-star Michelin rating—for Le Louis XV, in Monaco—when he was just 33 and now runs an empire of more than 20 restaurants (with a collective 19 Michelin stars) in cities from Tokyo to Las Vegas. *Interviewed by Patrice Piquard*

HBR: You describe yourself as the “artistic director” of your company. What does that job entail?

Ducasse: I'm the creative one, who conceives the restaurants, books, cooking schools, events—all the products and services offered. I look at where we are and where we're going. I work in tandem with my general director, Laurent Plantier, who handles the finance-management-business problems, which are of no interest to me. We've worked side by side for 15 years, but he does not meddle in my affairs, nor do I meddle in his.

You appoint and supervise all your chefs. How strict are you?

I do not always supervise in person. I have a network of foodies around the world who ply me with information. It's true that I am demanding and not always nice. If a colleague opts to do poor work when he could have performed very well, that upsets me. But you shouldn't focus on supervision. What's key is the shared experience: I talk to my chefs, tell them what I see, and try to improve their level of observation. Last Saturday I had a conversation with Christophe Saintagne, the chef at Le Meurice, in Paris, about what I'd seen during a recent trip to Japan: the Kyoto market, the cooking temperature of a particular product, the composition of a certain seasoning, the philosophy of the vegetarian food served at the Zen temples.

How do you develop your staff?

The restaurant industry is a wonderful social ladder. Christophe, for example, is only 36, but he'd been my second-in-command for several years, visiting all our restaurants, which broadened his palate and his open-mindedness and nurtured his intellect. I've asked the chef at our Osaka restaurant, who is Japanese, to come work as a station chef at Le Meurice. He has great potential, and we plan to inspire him with a new experience and have him work on a few things he hasn't quite grasped, such as pastries. Laëticia Rouabah, who has just taken control of Allard, our Paris bistro, is 29, but she is sharp and unafraid and wants to make great strides. You must allow people to evolve, help them grow, make them feel gratified. Achieving this depends one-third on their professional advancement and ability to thrive in their work, one-third on their compensation, and one-third on the harmony that reigns over the team. You must heed all three.

You say your chefs now cook better than you. True?

They practice and refine their technique every day, and I do not. I'm like the football coach who, if placed on the pitch, could no longer score goals. Mark my words, though, there are chefs at other restaurants who have never left their kitchens, but their cooking is not as good as mine! 🍷

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