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E · D · I · T · O · R ’ S   N · O · T · E

Leadership Uncertainty

Welcome to the world of VUCA.

by Frank Lloyd

HAVE YOU HEARD OF VUCA (*Volatile, Uncertain, Complex,* and *Ambiguous*). I learned this acronym from the *Economist Intelligence Unit*. To many economists, VUCA perfectly captures the global economic outlook. However, VUCA also suggests that *no one can confidently predict how the economy will perform in the foreseeable future*. As humorist ***Will Rogers*** said of the Great Depression in the 1930’s: “*I don’t know any more about this than an economist*!”

Leaders appear to be as uncertain as economists in responding to a VUCA world. A national CFO survey conducted by Deloitte identified *strategic ambiguity*, *changing regulatory requirements*, and *major change initiatives* as their top job stresses. *Performance pressures* came in a distant fourth. While 46 percent of the CFOs reported that they are focused on *revenue growth* in the near term, optimism and forecasted operating results were highly variable. They identified *the economy* as *the one potentially high-impact risk area* that worries them most.

Locally, the annual SMU Cox *CEO Sentiment Survey* reports that leaders *continued to feel negative impact of the recession in 2010*. In 2010, 44 percent of CEO’s saw improvement in the economy, but 34 percent experienced a decline. In the coming year, fewer CEO’s than last year expect the local, national or global economies to improve. The outlook for individual businesses is mixed with many expecting both revenues and costs to increase, squeezing profits. However, this is highly variable with 44 percent of respondents expecting capital expenditures and wages to remain flat but 34 percent expecting them to increase, and 48 percent foresee staffing levels to remain flat with 32 percent projecting an increase.

What are Chief Learning Officers saying about their plans for investing in human capital? One survey conducted in spring 2010 indicated that about as many firms planned to increase spending on training as planned to decrease it. More recently, *CLO* magazine’s Business Intelligence Board found more CLOs expecting an increase in budgets than in 2010, but the increases are expected to be small (4 percent), and about three quarters of the respondents expect these modest increases or no change.

The national results for CLOs follow those SMU found locally among HR leaders and trainers. Over 98 percent were evenly split on *projecting no change or modest increases* (less than 20 percent) in spending on management training. This is on top of two years of more than 10 percent decreases. Thus, even those who are projecting increased spending won’t return to pre-recession levels in 2011.

Most learning and development professionals agree on how to focus their limited investment in human capital. Over *two-thirds* of local HR leaders who project increased spending intend to ***focus it on their high potentials***. However, they expect to do most management development in-house, using external providers for outside expertise and third-party viewpoints rather than to achieve economies through outsourcing or flexible staffing. Not surprisingly, then, ***leadership is by far the most important content area*** followed by topics that reflect the need for focus and efficiency.

The ***four areas*** where CLOs say spending will have the most impact are: ***leadership and executive development***, compliance, business skills, and career development, including industry and job or role specific skills. Of course, many CLO’s expect to invest in technology infrastructure, including learning and content management systems, content authoring and virtual classrooms, mobile and portal technologies. The share of learning budgets devoted to technology is expected to increase from about 19 percent in 2010 to only 20 percent in 2011.

In a VUCA world, leaders are rightly cautious about investing in growth. Prudence dictates that they hoard cash and reduce debt. However, *VUCA demands that management development leaders manage their human capital investment portfolios* to ***prepare a deep pool of flexible and adaptive leaders*** and to develop capability in business acumen, strategic thinking, organizational and interpersonal skills. Sound investments in these areas will create the *maximum benefit* from limited resources and enable them to respond to a VUCA world and *do more with less*. **LE**

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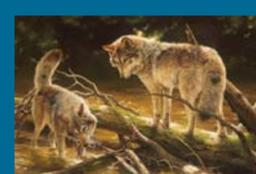

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Executive Excellence Publishing

Extreme Makeover

Engage in management innovation.

by Gary Hamel

MANY OF THE TOOLS and methods we use to manage people are ill-suited to the challenges in today's *creative economy*. Often, legacy management practices reflexively perpetuate the past—by over-weighting the views of long-tenured executives, by valuing *conformance* over *creativity*, and by turning tired nostrums into sacred truths.

We all know there are downsides to *management-as-usual*, but are there any good alternatives? We can *dream* about organizations *where employees challenge their bosses*, *where honesty trumps deference*, and *where the pyramid is turned upside down*—like we can dream about world peace and cold fusion. But that doesn't mean they're achievable.

Skepticism is understandable. After all, *the technology of management varies little from firm to firm*. Hence, it's easy to assume that the management *status quo* is also *status optimus*—that while there may be *other ways* of managing and leading, there are no *better ways*.

Before accepting this premise, we should remind ourselves that *dogma often masquerades as truth*, and that *we are often comforted by the deception*. Many leaders would prefer a lazy ramble along gentle contours of the tried-and-true than a hard scramble up the rocky incline of the untested and unproven.

Vineet Nayar, CEO of HCL Technologies since 2005, however, is a scrambler—one who has fomented a fervent *revolution in management practices*.

I first met Vineet in 2008, when he participated in a conference I'd organized in California. Half a minute into our first conversation, he said: "We tell our employees, 'You are more important than your manager.' Value gets created between the employee and the customer, and management's job is to enable innovation at that interface."

Vineet's fervor was palpable—and a little weird. *Revolutions don't usually start with the monarchy*. I wondered, was he backing up his revolutionary rhetoric with action? As I dug deeper, I discovered that he is. In his illuminating book *Employees First, Customers Second,* he chronicles a journey that most experts would regard as a *quixotic*—how can you create a company that feels more like a community than a bureaucracy and operates more like a democracy than a hierarchy?

The world has become too complex for the CEO to play the role of *visionary-in-chief*, argues Veneet. Instead, the CEO must become a *management architect*—someone who continually asks, *What are the principles and processes that can help us surface the best ideas and unleash the talents of everyone who works here?* Today, as never before, the world needs leaders who refuse to be seduced by the fatal allure of the familiar.

Six Major Innovations

Vineet and his team pursued the path of management innovation one craggy step and jagged handhold at a time, making six key changes:

1. Transparent financial data. Vineet realized it's hard to feel empowered if your manager has data you don't. So, HCLT's IT team enabled *every employee* to have a detailed set of financial metrics for their team and *all teams*. Suddenly, poorly performing teams had incentive to improve, and high-performing ones to stay on top. And, employees now had positive proof that the company trusted them with strategic information. *Need to know* became *right to know*.

2. Open and honest feedback. Vineet and his leadership team set up an *online forum* and encouraged employees to ask tough questions and offer honest feedback. Nothing was censored; every post, however virulent, was displayed. While some managers bemoaned the fact that the company's soiled laundry was now online, employees lauded the forum as a symbol of HCLT's commitment to transparency and as another way to hold top management accountable. The *U&I* portal also served as an *early warning system* for critical issues. Later, Vineet opened up a *My Problems* section where he solicited advice on the big thorny issues he wrestled with.

3. Service level agreements. When Vineet asked front-liners, "What have the enabling functions, like HR and finance, done to help you create value in the value zone?" he was often met with silence. The solution: a web-based *Smart Service Desk* where any employee could open a *service ticket* if they had a complaint with a staff group. Once opened, the ticket could only be closed by the concerned employee, once their issue had been resolved. Staff functions were charged with dealing with open tickets within 24 hours, or the ticket gets escalated up the line. This system made staff departments more accountable to those in the value zone; leveled the playing field for employees, as their concerns now get handled quickly and efficiently; and generated data used to improve internal policies.

4. Open evaluations. HCLT employees rate (anonymously) the performance of *any manager whose decisions impact their work*. These ratings are published online. This visibility challenges managers to be more responsive and to exercise their authority judiciously. The number and scope of reviews received are indicators of managers' zone of influence. This *feedforward* process is not connected to compensation and promotion decisions—it is purely developmental—but there are few hiding places left for mediocre managers.

5. MyBlueprint. As the CEO, Vineet was asked to weigh in on hundreds of unit-level plans each year. Recognizing the limits to his time and expertise, he challenged colleagues to develop an online, peer-based evaluation process. The solution: *MyBlueprint*. Last year, 300 managers posted their business plans or *blueprints* online. More than 8,000 employees reviewed the plans. The result was a torrent of advice and counsel, highlighting chances for cross-unit collaboration and helping leaders to learn from interested peers.

6. Employee first councils. The goal here was to *help employees connect with team members who shared similar interests and passions*. Supported by a web-based platform, this initiative rapidly spawned communities around cultural, recreational, and job-related issues. Each Council elected its own leader. Vineet's team also launched 32 issue-specific councils that quickly became a vital source of *new ideas* and *strategic insights*. These are then transferred to a dedicated group to execute (now *20 per-*

cent of HCLT's revenue comes from them).

The notion of *reverse accountability* is now rooted within HCLT. There's still a hierarchy, but its role is diminished. Says Vineet, "At HCLT, we are trying to democratize our company."

Vineet Nayar and his team had the guts to commit HCL to a goal—*reverse accountability*—that was both *excruciatingly difficult* and *eminently worthwhile*.

Take Bold Innovation in Stages

HCLT proves that it is possible to change management DNA— *without* blowing up the existing management system, *without* having a detailed master plan at the outset, and *without* taking inordinate risks. If you're a would-be management renegade—this means that you've just run out of excuses.

Bold innovation is usually a *multi-year, multi-staged process*—for three reasons:

1. In established firms, it's impossible to start from scratch and hazardous to move too quickly. Innovators rarely have a clean sheet of paper—and must ensure that the business keeps running while testing new practices. So, the transformation at HCLT is still a *work in progress*; but, if a $2.5 billion company can invert the pyramid and live to tell about it, we must admit: *there are alternatives to the management status quo*.

2. Radically-minded management innovators don't have the benefit of a roadmap. To do a six-sigma rollout, you can buy a manual; but to invert the pyramid, you'll have to venture off the well-trod path of management orthodoxy, tramp through unexplored terrain, and occasionally get stuck in the mud—it often takes several iterations before a bold, new policy initiative produces the hoped-for results.

3. We're talking about people, not widgets. On any given day, some of us will be selfish, grumpy, egotistical, or mendacious—and a few people are most of these things most of the time. Yes, there'll always be jerks, but in an organization committed to becoming more transparent and less hierarchical, there are fewer of them over time.

So, while an extreme management makeover is possible, it can't be done overnight or without setbacks. The *new* doesn't instantly or magically supplant the *old*. Even after *years* of diligent effort, vestiges of the old, legacy model (*overbearing bosses, under-loved employees, and petty turf wars*) will remain. But over time, these become the exceptions. **LE**

Gary Hamel is a Fellow of the World Economic Forum and the Strategic Management Society and the author of The Future of Management. *Visit www.garyhamel.com.*

ACTION: Innovate your management practices.

What Matters?

Start making memories.

by Tom Peters

AT AGE 68, ALTHOUGH I try to be forward-focused, I have a frequent urge to *sum things up*. As I look back, I find that certain memories stand out. I know my own story—and have talked to many others. When you look back at *what really matters*—it's rarely *the numbers*. Yes, you must be profitable to survive. Still, my *summing up statement* is more about *the basics of human behavior and character* than about the angle of incline of a market share graph.

What follows then is my attempt to identify the *memories that matter*—or will matter—for you as a leader:

- People you developed who went on to stellar accomplishments.
- Two or three people you developed who created stellar firms of their own.
- The long shots you bet on who surprised themselves—and your peers.
- The people who later say, "You made a difference in my life—your belief in me changed everything."
- The sort of/character of people you hired (and bad apples you chucked out despite some stellar traits.)
- A few projects you *doggedly pursued* that still make you smile and changed the way things are done inside or outside the company or industry.
- The supercharged camaraderie of a great team aiming to *change the world*.
- Belly laughs at some of the stupid-insane things you and your mates tried.
- A consistent record of having invariably said, "Go for it!"
- Not intervening in the face of loss—knowing that developing talent means tolerating failures and allowing people to work out of their self-created mess.
- Dealing with one or more crises with particular/memorable aplomb.
- Demanding/demonstrating civility, regardless of circumstances.
- Turning around dreadful situations —and watching people rise to the occasion and acquire a new sense of purpose.
- Leaving something of lasting worth.
- Having almost always put *quality* and *excellence* ahead of *quantity*.
- Times when you did the right thing to avoid compromising your and your team's character and integrity.
- A sense of time honorably spent.
- Expressions of simple human kindness and consideration—no matter how harried you may have been.
- Knowing that your demeanor and expression of character always set the tone—especially in difficult situations.
- Rarely letting your expression of enthusiasm/determination flag—the rougher the times, the more your expressed energy, optimism, and humor.
- The earned respect of your peers.
- A stoic unwillingness to badmouth others—even in private.
- An invariant creed: *When something goes amiss, the buck stops with me; when something goes right, it was your doing.*
- A *naïve* belief that others will rise to the occasion if given the opportunity.
- Eschewing trappings of power (strong self-management of tendencies toward arrogance or dismissiveness).
- Intensity, even *driven*, but not to the point of being careless of others.
- Willingness to be surprised by ways of doing things that are inconsistent with your *certain hypotheses*.
- Humility in the face of others, at every level, who know more than you about "the way things really are."

- Biting your tongue on a thousand occasions—and *really listening*—and being delighted when you learn something new.
- Unalloyed *pleasure* in being informed of *the fallaciousness of your beliefs* by a person 15 years your junior.
- Selflessness—a reputation as *a person who helps out despite personal cost*.
- Having been as thoughtful and respectful, or more so, toward *enemies* as toward friends and supporters.
- Always being first of service to your internal and external constituents (*employees, customers, vendors, community.*)
- Treating *servant leadership* as holy writ (and preaching *SL* to others).
- Creating the sort of workplace you'd like your kids to inhabit.
- Being a *certifiable nut* about quality, safety, integrity, regardless of costs.
- Resigning a few times rather than compromise your bedrock beliefs.
- Seeking perfection just short of the paralyzing variety.
- A self- and group-enforced standard of *Excellence-in-all-we-do* and *Excellence in our behavior toward one another*. **LE**

Tom Peters is the best-selling author of The Little BIG Things. *Email tom@tompeters.com or visit www.tompeters.com.*

ACTION: Start making your leadership memories.

Strong Leadership

Live and lead from strengths.

by Marcus Buckingham

SINCE USING YOUR strengths makes you feel strong, pay close attention to how you feel as you complete your day-to-day tasks. When you notice yourself at work (or at play), you find that you experience *strong-moments*—times when you feel invigorated, inquisitive, or successful. Those moments are clues to your personal strengths.

To help you recognize the signs of strength, here's a *simple acronym* ***SIGN:*** ***S—Success:*** Do you feel a sense of accomplishment about finishing this task? ***I—Instinct:*** Do you instinctively look forward to performing this task? ***G—Growth:*** Are your synapses firing? Are you mentally focused? ***N—Needs:*** Does this task fulfill one of your needs?

If you feel these feelings while doing a task, then that activity is likely one of your strengths.

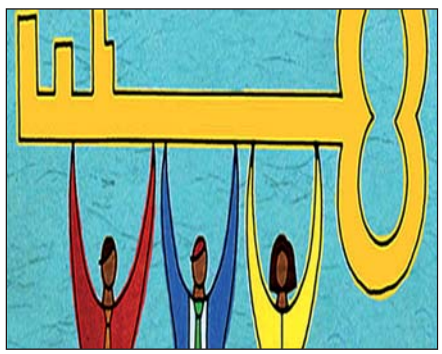
As a leader, you need to discover your strengths and then do more of what most invigorates you and what you do best. You can attain high satisfaction in your life and leadership when you figure out what strengthens you—and then make decisions that enable you to play to your strengths instead of worrying about things that weaken you. In fact, you can push your current job, no matter what it is, in the direction of your dream job. The more you use your strengths, the more satisfying your job will be.

Many people feel the need to be *well-rounded* in their life and their leadership. Performance reviews often consist of a brief pat on the back for areas that are working well and then a substantial focus on "areas of opportunity." The problem with focusing on what doesn't work is that *attention amplifies everything*. If you focus on the problem with the intent of fixing it, despite your best intentions, that problem is magnified. Instead, shift your focus and ask, "What's working well, and how can I get more of that?"

You are innately wise. When you make poor decisions, you haven't listened to your intuitions or yearnings enough. Listen to yourself carefully, catch the moments that invigorate you, and cradle them—concentrate on them, celebrate them, look at them from new angles, follow where they lead, and you'll make the right decisions for you.

The challenge of life and leadership is not to *juggle*—the challenge is to *catch*: to select a few clear, strong moments from each aspect of your life, reach for those, and draw them in to you.

To live a more fulfilling life, you need to identify the *specific moments* (in each part of your life) that renew your energy and bring you joy, and go after them. You want to *imbalance your life* toward creating more of those moments. You can't do everything, so don't fall into the trap of trying. Instead, find the moments in each aspect of your life that invigorate you, and *imbalance your life* toward those things.



It's About Results

The truth is, *people are not your greatest asset*—unless they're in position to leverage their greatest strengths, those things they do well consistently and energetically.

Individuals and teams playing to their strengths outperform those who don't in every business metric. In fact, the single best predictor of a consistently high-performing team is the answer to this question: *At work, do you have the opportunity to do what you do best everyday?* Teams with individuals who do *massively outperform* teams with people who don't—they are more profitable, more productive, less likely to quit, less likely to have accidents on the job—the list goes on—and yet only 12 percent of people play to their strengths at work most of the time!

Have we forgotten what Peter Drucker wrote some 50 years ago: The *Effective Executive* builds on strengths—their own strengths, the strengths of superiors, colleagues, subordinates; and on the strengths of the situation."

As leaders try to do more with fewer people, they need to engage each person's strengths, and do it at scale across the organization. The strengths movement isn't about making people happier—it's about making organizations more productive. The best companies are made up of great teams. And those teams have individuals who know their strengths, take them seriously, and offer them up to the organization.

What Sets Great Companies Apart?

Every company is made up of separate teams, and the performance of those teams, no matter how successful the company may be, varies widely. And for the individual employees, the experience of the team trumps the experience of the company. What then, determines the experience of the individual? Often it's their managers and leaders. As we often hear: People join companies, and quit managers.

Managers and leaders play a significant role in creating a culture wherein individuals can thrive, discover their talents and have an opportunity to use their best selves daily. Great leaders and managers help people to identify and leverage their unique strengths most of the time.

Again, the opportunity for individuals to play *to their strengths most of the time* is the key factor that shows the greatest correlation to outstanding performance in the widest range of business outcomes, including profits, productivity, customer satisfaction, and safety and employee retention.

Teams whose members play to their strengths most of the time are: 50 percent more likely to have lower employee turnover; 38 percent more likely to work on high-productivity teams; and 44 percent more likely to earn higher customer satisfaction scores. And yet, again, fewer than 20 percent of people say that they do. Worse, fewer than 25 percent say that their manager even discusses their strengths in performance reviews.

Strong managers and leaders identify and leverage their own strengths and then create a fully engaged strengths-based team. **LE**

Marcus Buckingham is founder of TMBC, a management consulting company, leadership expert, speaker and bestselling author of First, Break All the Rules; Now Discover Your Strengths *and* Find Your Strongest Life. *Visit www.TMBC.com.*

ACTION: Discover and play to your strengths.

Dance of Power

Women are taking the lead.

by Sally Helgesen

IS LEADERSHIP AN ART OR science? Are women fit for top leadership roles? These questions have long been debated. Your answers likely determine whether you believe leadership capability can be developed and who you think is best suited to lead.

Richard Strozzi-Heckler has built a distinctive career based on the proposition that ***leadership is neither art nor science, but rather a practice that can be developed***. A leader can build fluency and muscle through the *regular exercise* of disciplines that require physical and mental effort. "People change through practice," he says. "You can be smart, but if you just talk about something, you never learn to do it. Practice requires being systematic, performing a sequence of movements over and over until it becomes part of your physical being, part of who you are."

Strozzi shows how wisdom can be made manifest through movement. Drawing on a lifetime study of martial arts and Eastern philosophy; decades of training in competitive sports; and stints as a marine, soldier, firefighter, psychologist, and professor, Strozzi has created an eclectic but disciplined and replicable program for helping leaders develop the physical presence, fine-tuned awareness, bias for action, and precise articulation of purpose that inspire confidence and trust.

In the Western tradition, the *physical component of leadership* has been identified with *athletic prowess*. Athletics have been viewed as a vehicle for building character, instilling self-discipline, or imparting the habits of command that come from captaining a team. Hence, we often assume that *athletic excellence* auto-translates into *skilled leadership*.

But the equation between sports and leadership, and the metaphors it has inspired, seem outdated and culture-specific in today's diverse global organizations. Changing demographics and technologies have made competitive sports less relevant and inspired a backlash that finds one expression in the exaltation of the nerd.

This leaves leadership with a mind-body problem, for without the focus on sports, how can leadership be *embodied*? It's an important question, since manifesting a *leadership presence* (and exerting *physical influence*) is essential.

Strozzi addressed the gap by developing a *physical* yet *non-athletic* program of leadership training suited to an era in which the definition of *what a leader looks like* is evolving. His methods are also apt for cultures of networks and teams. In top-down organizations, leaders can exert power by virtue of position; in decentralized networks, people won't follow unless they buy into what is proposed. Hence, the emphasis on *walking the talk* also suggests that a leader's principles must be embodied.

• Lieutenant Colonel Fred Krawchuk, operations commander for the U.S. Army in the Pacific, notes: "In the military, as in business, we place too much value on being action-oriented. We think *leaders* are the guys who say, 'Let's just get it done.' But that shortchanges thoughtfulness and reflection. How do we merge these qualities? We develop awareness. If we can be fully present with other people and grounded in ourselves, we can integrate observation with our capacity to act."

• Nancy Hutson, who retired from Pfizer as senior VP for global R&D, sounds a similar note: "Working with body, language, and mood helps us be more aware of ourselves, more attuned to others, as we build trust (not just assume it). Richard's emphasis on *practicing leadership* rather than *being a leader* also subverts the hierarchy, since *being a leader* is all about position."

Web technologies, shifting demographics, and deregulated global markets requires leaders who are comfortable *being at the center* rather than *being at the top*, exercising intuitive and collaborative skills and making their *words* consistent with their *actions*. Women have an advantage in a world that values *authenticity* over *positional power*. The ability to lead effectively derives from self-knowledge. To quote Sun Tzu: *Knowing the other and knowing oneself, in one hundred battles no danger. Not knowing the other and knowing oneself, one victory for one loss. Not knowing the other and not knowing oneself, in every battle certain defeat.*

Women Lead the Dance

Women are particularly well suited to the new dance of leadership—and yet many stumble as leaders. Zoe Cruz and Sallie Krawcheck were the most powerful women on Wall Street. It was speculated that both would become CEOs of their powerhouses—Morgan Stanley and Citigroup. Instead, Ms. Cruz was ousted and Ms. Krawcheck demoted, leading to hand-wringing about *how women seem be losing ground as leaders.*

Having studied female leadership for two decades, this *women flounder as leaders* narrative has a familiar ring. While the progress women have made as leaders has not been rapid or smooth, *the impact women are having on what we perceive to be desirable in our leaders continues to grow*. The real story is about influence (not numbers). Women are comfortable with direct communication, relationship-building, diversity, and emotional intelligence—skills best suited for leaders today.

I prefer to focus on what women have to contribute, rather than how they need to change or adapt. For decades, women were urged to conform to a masculine leadership style—to start using football metaphors in meetings, take up golf, and pull rank on subordinates in order to keep them in line. *Leave your values at home and play the game* was the message. This conventional wisdom was based on *three assumptions*: 1) organizations wouldn't change simply because women had entered them in massive numbers; 2) changes wrought by networked technologies wouldn't change organizational structures or reshape people's expectations of their leaders; and 3) women's handicaps as leaders would outweigh *whatever advantages* they might confer.

I saw these assumptions as false. As organizations undergo rapid changes as demographics, technology, and economics of work shift, women face a historic opportunity to influence *if they will honor and develop their distinctive strengths*.

In my research, I find that *talented and confident women leaders* have **seven characteristics in common:** 1) they place a high value on relationships and judge the success of their organizations based on the quality of relationships within them; 2) they prefer direct communication; 3) they are comfortable with diversity, having been outsiders themselves and knowing what kind of value fresh eyes could bring; 4) they are unwilling (and unable) to compartmentalize their lives and so draw upon personal experience to bring private-sphere information and insights to their jobs; 5) they are skeptical of hierarchies and surprisingly disdainful of the perks and privileges that distinguish hierarchical leaders and establish their place in the pecking order; 6) they preferred leading from the center rather than the top and structure their organizations to reflect this; and 7) they ask big-picture questions about the work they do and its value.

Such skills and strengths of women leaders are now highly desirable. Networked technologies, the knowledge economy and demographics of globalization all support the skills, talents, and presumptions that women bring.

Twenty years ago, relationship-building was considered a soft skill that a leader, who had to be tough, could not afford. *Now, as leaders seek to connect more directly with customers and stakeholders and motivate employees, an ability to nurture strong relationships is essential.* Technology today facilitates and demands direct communication while undermining hierarchy, a plus for those who enjoy leading from the center rather than the top. And in a global economy, comfort with diversity has become essential. As work and home become harder to separate, compartmentalizing becomes a liability.

Also, the tough-guy approach to leadership is in disrepute these days, as tyrants and bullies are brought in for censure. Organizations today feel compelled to state how they value relationships and support diversity. Leaders compete to take a greener, more holistic approach—emphasizing sustainability and contribution and acknowledging the need to nurture the human spirit. *Inclusive* has become a buzzword, and *weblike* a description of how things work.

As more women are reaching positions of authority and influence, they are having *a profound impact* on how organizations are led and on what leadership qualities are valued. LE

Sally Helgesen is a speaker, advisor, and author of five books, including The Female Vision: Women's Real Power at Work, The Female Advantage *and* The Web of Inclusion. *Visit www.sallyhelgesen.com.*

ACTION: Enable more women to lead the dance.

Leading People

It's different than driving them.

by Donald Sandel

A CLASSIC STORY FROM the early days of the American Revolution occurred at the Battle of Bunker Hill. Two great American soldiers, General Israel Putnam and Colonel William Prescott, had both led and fought gallantly. It was an epic struggle of strategy, courage, and grace under fire. Though the Americans gave up ground, it was *seen as a victory*, as they inflicted serious damage upon the world's greatest military force, and raised American hopes.

As Prescott was leaving the field, he approached Putnam, and asked him why he had not given his flank more support with his men. "I could not drive the dogs," Putnam answered. To which Prescott said, "If you could not *drive* them, you might have *led* them."

That's a valid response to all leaders. We can't *aspire* to victory by *driving* our people. Organizations are bricks and mortar, spreadsheets and policies, and can't accomplish anything without their people. Leaders who focus on the *organization*, and forget about *people* are *not leading at all* (there's a big difference between *driving dogs* and *leading people*).

Some leaders blame the economy for their not focusing on people: *We've just got to make the numbers*. But focusing on people is not a response only to good times, but a strategic approach that understands that it is through our people that work gets done, that market differentiation occurs, and that customers return. As Kerry Killinger, CEO of Washington Mutual, stated: "Great leaders know that they can't just meet short-term earnings expectations and manage the bottom line: *They must create a great environment for their people*."

Many smart leaders miss this correlation between people and earnings, engagement and customer satisfaction: *If you help make me a happy employee, I will take better care of customers and put discretionary effort back into the organization*. Engaging employees and showing them that you care need not break the bank.

Some of us today are so busy *driving* that we forget: we should be *leading*. And by creating an unhappy workforce, things turn from bad to worse. Clearly, those who ignore this fact do so at their peril. When the economy improves and jobs are plentiful, people will remember how their leaders behaved. Smart leaders care for their employees during difficult times, take advantage of the talent supply that exists, and raid competitors for disengaged superstars.

Some 50 years ago McGregor posited his theory about X and Y leaders:

- ***Theory X*** leaders assume that most people dislike work, lack ambition, and desire no responsibility and accountability. Leaders who see their employees in this counter-productive way have disengaged workers and low retention rates and struggle to motivate staff.
- ***Theory Y*** leaders assume that people tend to be ambitious, self-motivated, and not only accept responsibility but seek it. Managers with this view know that satisfaction comes from doing a good job and that employees are largely self-directed and thrive in autonomy.

Daniel Pink notes: "Today economic accomplishment, not to mention personal fulfillment, depends not on keeping our nature submerged but on allowing it to surface. It requires resisting the temptation to control people—and doing all we can to reawaken their deep-seated sense of personal autonomy."

Service, innovation, and excellence emerge from a *relationship of trust* between employee and manager. And this seldom happens by accident. You may have a finance or operations strategy, but the ultimate value proposition is an executed *people strategy*.

My advice: Hire well. Set clear expectations. Look for teachable moments. And then get out of the way. Our greatest accomplishments, inventions, and innovations come from t*he innate desire to do so*, not to satisfy a corporate goal or a superior's demand. Order me to create and I'll get something done; *allow* me to create and I will amaze.

"I am not big on the *dignity of office* stuff," writes Tony Blair, in his memoirs; "I rested my authority on *motivating and persuading people*, not on frightening them." What is required from leaders is the courage to let go, to trust, and then to be amazed. LE

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ACTION: Lead your people to victory.

Enduring Greatness

Look now for the right leaders.

by Jim Collins

MANY PEOPLE HAVE argued that *it's time to give up on the idea of building great companies that endure*. One technology pundit cornered me at a conference and deemed the whole *build to last* premise absurd: "We live in an era when nothing can be built to last. Everything is in flux; nothing can be sustained." He invoked Joseph Schumpeter, the great economist who wrote about the "perennial gale of creative destruction" wherein technological change and visionary entrepreneurs give birth to new things that obliterate old things, only to see those new things become obliterated by the next generation.

I've been through versions of the creative-destruction argument dozens of times, with smart people. And one of their favorite arguments invokes the *Fortune* 500: If you examine the list over time, you find tremendous churn.

But if we look through another lens, we can see a different story, a story of well-founded hope—even *clear examples of enduring greatness*. We also find companies that overcame oppressive mediocrity or worse to achieve sustained success. We also find companies that fell from greatness, but then regained their footing, standing defiant against the forces of creative destruction.

Just because a company stumbles—or gets smacked upside the head by an unexpected event or new challenge—does not mean that a company must continue to decline. Companies do not fall primarily because of what the world does to them or because of how the world changes around them; they fall first and foremost because of what they do to themselves. Whether you prevail or fail, endure or die, depends more on what you do to yourself than on what the world does to you.

Throughout history, the greatest companies have used adverse times to their advantage. Just because Joseph Schumpeter's creative-destruction argument proves correct for most businesses does not mean that the companies that create those businesses must fall and die—after all, you can practice creative destruction inside your own walls and thereby endure for decades, perhaps centuries. Yes, all products, services, markets, and even specific solutions to social problems eventually become obsolete. But that does not mean that the organizations that produce them must become obsolete.

When you've built an institution with values and a purpose beyond just making money—when you've built a culture that makes a distinctive contribution while delivering exceptional results—why would you capitulate to the forces of mediocrity and succumb to irrelevance? And why would you give up on the idea that you can create something that not only lasts but deserves to last? The best leaders never point out the window to blame external conditions; they look in the mirror and say, "We are responsible for our results!" Those who take personal credit for good times but blame external events in bad times simply do not deserve to lead. *No law of nature dictates that a great institution must inevitably fall*. That most do fall—and we cannot deny this fact—does not mean *you have to be one of them*.

Celebrities vs. Level 5 Leaders

There is perhaps no more corrosive trend to the health of our organizations than the rise of the *celebrity CEO*, the rock-star leader whose deepest ambition is self-centric. In contrast, every good-to-great company has had a remarkable leader at the helm during the pivotal years. These *Level 5 leaders* have a paradoxical blend of traits:

- ***They're somewhat self-effacing individuals who deflect adulation, yet who have an almost stoic resolve to do whatever it takes to make the company great.*** They demonstrate *unwavering resolve* to do whatever must be done to produce the best long-term results, no matter how difficult, yet act with quiet, calm determination and rely principally on inspired standards—not an inspiring personality—to motivate. They channel their ego needs away from themselves and into building a great company. They create superb results, yet demonstrate a compelling modesty, shunning public adulation and never boastful.
- ***They are incredibly ambitious—but their ambition is first and foremost for the institution and its greatness, not for themselves.*** They are comfortable with the idea that their companies will tick on without them, reaching even greater heights. The fact that most people will not know that the roots of that success trace back to them is not an overriding concern. They set the standard of building an enduring great organization and will settle for nothing less, yet channel ambition into the organization and its work, setting up successors for even greater success in the next generation.
- ***They look in the mirror, not out the window, to apportion responsibility for poor results,*** never blaming *other people*, *external factors*, or *bad luck*; and yet they look out the window, not in the mirror, to apportion credit for success of the company—to *other people*, *external factors*, and *good luck*.
- ***They may earn a very good living, but they don't work for money.*** Making a company great has little to do with *how* you compensate leaders and everything to do with *who* you compensate. If you have the right people, they'll do everything in their power to make the company great, no matter how difficult the decisions. *Level 5 leaders* are revolted by the idea of leaving unrealized potential on the table; they are driven to *create excellence for its own sake*—never satisfied because there is always a *higher standard* to work toward. *Leaders whose dedication goes up and down depending on their incentive compensation are simply the wrong people for the job.* If boards would stop lurching after high-profile, egocentric celebrities and turn instead to the disciplined, workmanlike leaders who produce true greatness over time, we'd see better companies.

If we allow the celebrity model of leadership to triumph, we'll see the decline of organizations. If *good is the enemy of great*—and I believe it is—the current trends in leadership give the decided edge to the enemy. Still, I remain optimistic. Smart people *see the dangers of entrusting our future to self-serving leaders who use our institutions to advance their own interests*. Also, I am convinced that the seed of Level 5 leadership is widely dispersed. When it is identified, cultivated, and encouraged, it can flourish. *And if it does, so will our organizations.* LE

Jim Collins is the best-selling author of Good to Great: Why Some Companies Make the Leap . . . And Others Don't. *This article abridged from his articles. Visit www.jimcollins.com.*

ACTION: Get the right people in your pipeline.

Your Inner CEO

Lead with your best wisdom.

by Richard Daft

EVERY LEADER AT TIMES will fail to follow his or her best intention. For example: "I promised myself and my boss that I'd delegate the hiring decisions, and then overrode my subordinate's decision, causing two people to quit." "I put off my quarterly report until the last minute." "When something ticks me off, I overreact." "I'm overly critical of people, and they don't appreciate it, but I can't stop."

In the case of HP's recent CEO, who fudged travel expense reports to hide the first-class airfares of an attractive vendor, his impulse overpowered his better judgment. *Most leaders who fail are good at the cognitive stuff*—vision, strategy, ideas—but things often break down at execution—their actions do not follow their stated intentions.

Executive vs. Elephant

These managers knew the *preferred action*, but some internal force pulled them toward less desirable behavior. Leaders usually know what they *should* do, so why aren't they doing it? According to neuroscience, the brain has two sometimes-conflicting parts. The *inner CEO* is the higher part that sees the objective big picture with a balanced approach to determining the best action. The lower part is the *inner elephant* with its ego, unconscious impulses, emotions, and lifelong habits. The strength of the leader's elephant may pull him or her toward micromanaging, putting things off, tactless remarks, insisting on always being right, overreacting, finding fault (rather than appreciating, listening, or focusing). Such behavior can overpower the wisdom of the *inner CEO*.

Most leaders have received feedback from 360 reviews about what works and doesn't work in their leadership style. Leaders often know what they *should* do, *how* to do it, and *why* they should do it. Yet when their intentions and behaviors refuse to align, the unwanted actions of the *inner elephant* take priority over the wisdom of the *inner CEO*.

The challenge for leaders is to develop the inner CEO to take command of the elephant. The lower part of the brain is meant to be *the follower*, not *the leader*. The *elephant* needs guidance to overcome its reactions and impulses. *Things go better when you put your inner CEO in charge*. For example, Richard Anderson, CEO of Delta Air Lines, learned to control his emotional reactions, to be patient and not lose his temper. His *inner CEO* realized that *everything he did was an example*, and when he lost his temper it would squelch debate and send the wrong signals. Carol Bartz, CEO of Yahoo, had a bad habit of interrupting people. She had to learn to take a breath, to shut up and listen.

How to Control Your Inner Elephant

The challenge for leaders, once they know *what* they should be doing differently, is *how* to change themselves to eliminate a flaw or bad habit. When

leaders learn to *strengthen their inner CEO* and *control their elephant*, they'll do what they know is best. But under stress, a leader might repeat old patterns. Here are ***eight ways*** to control your *elephant*.

1. Review the day. Spend 10 minutes in the evening reviewing the behaviors that worked and did not work during the day. At first, it is hard to remember what happened, but with practice you will remember everything. As you replay incidents in your mind, you'll discover more of the desired behavior repeating itself the next day while the undesired behavior will appear less often.

2. Consult with one person. Consulting with just one person before making a decision or taking action will enlarge your *elephant*'s thinking. Consult with several people, and your perspective will become large and balanced. Try consulting on every decision for one day—and watch your point of view expand, along with your wisdom.

3. Calm down. An agitated *elephant* is harder to control than a calm one. Anger, fear, frustration, and craving all give the *elephant* more strength. So, clear your head before making a decision or pushing the email send button. If you are procrastinating, your *elephant* is feeling low-level anxiety. The *elephant* is easier to manage when relaxed. To calm down, try sitting quietly by the task; soon you'll start to work again.

4. Slow down your reactions. To avoid overreacting to bad news, delay your reactions. You might count to 10, wait one minute, or wait 24 hours. One executive learned to ignore his *response 1* to bad news and waited for *response 2*, even if it meant responding the next day. His *response 2* was always wiser. Jeffery Katzenberg installed a *five-second delay on his reactions* so others could express their views first. It enabled a more robust and effective dialogue.

5. Create a mental picture. *Visualizing a desired behavior in your mind* powerfully impacts your *elephant*. Imagine how you want to give a speech, or handle a difficult conversation, and you'll provide vivid visual instruction to your elephant. *Mental rehearsal* often is as effective as *physical practice* for improving performance. Repeatedly visualize doing a dreaded task, and you'll more calmly and smoothly flow through it.

6. Repeat a mantra. Try offering a suggestion to your *elephant* in the form of a well-crafted mantra—telling the elephant what to change. Repeating "I am appreciating others more," "I am listening more carefully" or "I am delegating more responsibility," 20 times a day can reprogram your way of thinking and produce a striking change.

7. Provide detailed structure. Go to a fat camp and you'll exercise and eat healthy. Why? The camp *structures* your time. *Inner elephants* also respond to explicit, detailed instructions from the *inner CEO*. So, get everything you are doing out of your head onto paper, and identify *key steps* and a *deadline* for each task. These steps are i*mplementation intentions* that enable your *elephant* to comply.

8. Try meditation. Meditation quiets the active mind. To meditate, focus your attention on an anchor object or phrase—or watch your breathing or slowly repeat a word or phrase that has meaning for you.

As your *inner CEO* takes control of your *inner elephant*, you'll be more in flow, more fulfilled, your rough edges softening, while becoming the best leader that lies within you. LE

Richard Daft is the author of The Executive and the Elephant: A Leader's Guide for Building Inner Excellence *and is the Brownlee O. Currey, Jr. Professor of Management in Vanderbilt University's Owen Graduate School of Management.*

ACTION: Take control of your inner elephant.

Power and Influence

Get others to follow your lead.

by Terry R. Bacon

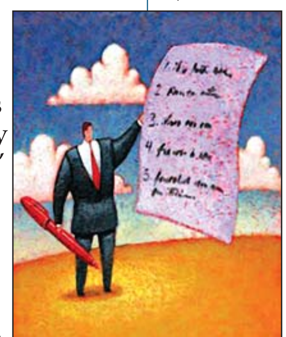
DOES MIGHT MAKE right, or are people in power largely governed by the better angels of their nature? Is any use of power immoral? Consider just a few of the atrocities in the past 90 years of human history: the Turkish genocide of Armenians circa 1919; the Nazi genocide of six million Jews circa 1944; the millions of Russians and Chinese killed by Stalin and Mao to consolidate power; the killing fields in Cambodia; the mass killing of Muslims in Bosnia; the genocide of the Tutsis by the Hutus in Rwanda; or the slaughter of innocents in Darfur.

Muckraker Lincoln Steffins argues, "Power is what men seek, and any group that gets it will abuse it." And James Madison, one of the Founding Fathers of the United States and its fourth President, said, "The essence of government is power; and power, lodged as it must be in human hands, will ever be liable to abuse." And, British statesman Edmund Burke warned, "The greater the power, the more dangerous the abuse."

We've all observed the corrupting nature of power and the potential for abuse when any power is concentrated in too few hands with too few checks and balances. The beatific view of human nature inherent in the *Golden Rule* is either distorted or corrected by the more perverse version: "He who has the gold makes the rules."

Some believe that power, by its very nature, is immoral, and that whenever people have any degree of control over the lives of others, they'll likely abuse that power. Sadly, we've seen ample evidence in recent years—from former Merrill Lynch CEO John Thain spending $1,400 on a wastebasket while his firm was collapsing, to former Boeing CEO Harry Stonecipher's ouster after being caught in an improper sexual relationship with a female executive—that people in positions of power, no matter how smart they may be, can often not resist the siren's call of greed or the abuse of their positions.

In 1991, during his acceptance of the Sonning Prize, Václav Havel, president of (then) Czechoslovakia, spoke of the temptations of political power. He noted that the privileges and perks of high office have a devious allure, and that a leader can become so used to them that he loses his perspective: "He becomes a captive of his position, perks, and office. What apparently confirms his identity, and existence, in fact subtly takes that identity and existence away from him. He is no longer in control of himself, because he is controlled by something else: by his position and its exigencies, consequences, aspects, and privileges." Noting that "there is something t*reacherous*, *delusive*, and *ambiguous* in the temptation of power," Havel argues that politics requires *pure people* because "it's easy to become morally tainted."



Since, as Shakespeare said, "the abuse of greatness is when it disjoins remorse from power," anyone who attains a position of power needs to resist the treacherous temptations of power and remain morally sensitive and alert to the self-delusions that can distort character. Of course, this is easier said than done, particularly in cultures where the exercise of power is Machiavellian. As Steve Forbes observed, "As more money flows through Washington and as Washington's power to regulate our lives grows, opportunities and temptations for graft, influence peddling, and cutting corners grow exponentially. *Power breeds corruption*." Indeed, *power corrupts; and absolute power corrupts absolutely*.

Business leaders also face many temptations to abuse power. Hence, we see scores of con men and corrupt leaders whose aims are self-serving, whose victims often include close family members, and whose abuse of power entrusted to them ruins investors and damages or destroys companies—from Tyco's Dennis Kozlowski, Adelphia's John Rigas, and Société Générele's Jérôme Kerviel to Billie Sol Estes, Enron's Jeff Skilling and Andrew Fastow, HealthSouth's Richard Scrushy, Wall Street's Bernie Madoff, and Countrywide's Angelo Mozilo.

Unlike politicians, business leaders are often out of the public eye and shielded from effective scrutiny, particularly if their boards are inept and their influence extends to the people expected to be watchdogs for the public trust. The failure of boards (think Enron) to exercise effective oversight led to the Sarbanes-Oxley bill. We're still debating just how much new regulation of banks and investment houses is necessary to prevent the blind excesses (spurred by self-interest) that fueled the damaging recession in 2008-2009. Clearly, unbridled power in too few hands is a recipe for disaster, particularly when the people in power are more motivated by self-interest (Bernie Madoff) than the collective good (Adam Smith).

After studying the need for power, David C. McClelland and David H. Burnham conclude: "Top managers must possess a high need for power—a concern for influencing people; however, this need must be *disciplined* and *controlled* so that it is directed toward the benefit of the institution—not their personal aggrandizement." This, then, is the challenge: how to attain and use power wisely and in a disciplined way, how to exercise power without abusing it or allowing its focus to be the elevation of the leaders' self-interests.

Power is not innately immoral; nonetheless, power can distort the power holder, especially when that power is absolute and unchecked, and it can lead him or her to justify acts which, seen in the clear light of history and unbiased observation, are clearly immoral.

Influence Gone Awry

Some gurus claim that if you follow their principles, you can influence anyone to do anything: you can get anyone to like you, love you, and find you irresistibly attractive; you can take control of *any* situation, win *every* competition, and gain the upper hand *every* time; you can get anyone to say *yes* to whatever you propose within minutes. When I read such claims, I'm reminded of what Abraham Lincoln said: *"You can fool some of the people all of the time, and all of the people some of the time, but you can't fool all of the people all of the time."*

The idea that you can influence anyone to do anything is nonsense. People may not be moved by your influence attempt for many reasons. In his book *What Leaders Really Do*, John Kotter writes: "Some people may be uncooperative because they are too busy, some because they are not capable of helping, and others because they have goals, values, and beliefs that conflict with those of the manager; therefore, they have no desire to help or cooperate." Also, the people you're trying to influence may not care about what you want them to support. They may disagree with your opinion, idea, suggestion, proposal, or point of view. They may not need what you are selling, accept your reasoning, or be inspired by what you are saying. They may be distracted, or disregard you.

Salespeople spend more time studying and practicing methods of influence, yet even the best of them can't sell their products or services to every customer all the time—because some customers won't be persuaded for reasons that may have more to do with the customers and the situation than the salesperson.

One subtle way people try to influence others is by appealing to authority. Such *legitimizing* is so ubiquitous that we often don't recognize it. When you try to influence someone by legitimizing, you essentially say, "Trust me, believe me, or obey me because some authority says you should." The *authority* could be a parent, boss, police officer, judge, cleric, or teacher whom the other person would consider an authority.

Legitimizing occurs when someone wears or displays the symbols of law or authority—a police officer's uniform and badge, a judge's robes and gavel, a military person's uniform and insignia of rank, the robes of a monk or cleric, and so on. People also *legitimize* when they cite a person's title, position, or role; by citing a group representing authority; by citing achievements or honors; by citing previous works, precedents, or publications; by citing a person of renown or something that person said; or by citing an agreement, behavioral norm, moral, tradition, law, regulation, or accepted standard.

One advantage of *legitimizing* is that it can influence people quickly. Civilization would not function well without *legitimizing* to regulate behavior and choices. A major draw-back to *legitimizing* is that many people are antiauthoritarian to some degree and resist some types of authority. *Their degree of compliance depends on how much they respect the authority being cited* and *whether they believe their compliance is necessary or advantageous to them*. The less respect people have for authority, the less they'll be influenced by *legitimizing*. LE

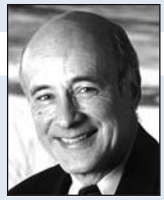
Terry R. Bacon is author of The Elements of Power *(AMACOM Books) and* Elements of Influence: The Art of Getting Others to Follow Your Lead *(forthcoming). Visit www.terryrbacon.com and www.kornferryinstitute.com; Terry.Bacon@kornferry.com.*

ACTION: Influence people to follow your lead.

CAPABILITY CONTEXT

Contextual Intelligence

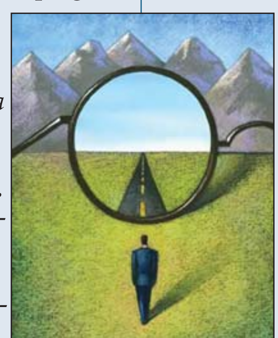
It's crucial for effective leadership.



by Joseph S. Nye, Jr.

THE RECENT PUBLICATION of George W. Bush's memoirs raises again *the role of contextual intelligence in leadership*. President Bush famously described his leadership role as "*the decider*." But deciding how to decide is as important as making the final decision: what should be the composition of the group the leader turns to; what is the context of the decision; how will information be communicated; and how much control does the leader maintain over the decision? Get such factors wrong and you may be *decisive*, but *decisively wrong*.

Bush described his leadership as having three core components: *outline a vision*, *build a strong team*, and *delegate much of the process to them*. Analysts who examined Bush's decision-making on Iraq argue that neither he nor those to whom he delegated knew the complexities. *Without contextual intelligence, being a decider is not enough!*



Understanding context is vital for effective leadership. Some situations call for autocratic decisions, others require the opposite. Leaders must operate in myriad contexts, but it's vital to understand *culture*, *distribution of power resources*, *followers' needs and demands*, *time urgency*, and *information flows*.

Ronald Heifetz argues that if the situation calls for *technical and routine solutions*, the leader may clarify roles and norms, restore order, and provide a solution. But if the situation requires *adaptive change*, the leader may let conflict emerge, challenge unproductive norms and roles, and let the group feel external pressures so that it learns to master the adaptive challenge. This may require *delaying decisions* and *using followers' anxieties as a learning experience*.

Half of General Electric's high flyers who went on to become CEOs of other companies had disappointing records. *Why do some leaders succeed in one context and fail in another?* One answer is "horses for courses." Some run better on a dry track and some in mud. Many a good CEO turns out to be a disappointment when appointed as a cabinet secretary. And many a government official who becomes a university president has trouble adapting to the *flat power structure* of academic life.

Contextual intelligence is an intuitive diagnostic skill that helps a leader to align tactics with objectives to create smart strategies in new situations. It implies a capability to *discern trends* in the face of complexity and *adapt* while shaping events—*the ability to intuit movements and seize them*. More prosaically, like surfers, leaders with contextual intelligence have the *judgment to adjust* to new waves and ride them to success.

Contextual intelligence allows leaders to adjust their style to the situation and to their followers' needs. It enables them to create *flows of information* that *educate their hunches*. It involves the *political skill* of not only sizing up group politics, but of understanding the positions and strengths of various stakeholders so as to decide when and how to use transactional and inspirational skills. It is the self-made part of luck.

In unstructured situations, it's often more difficult to *ask right questions* than to *get right answers*. Leaders with contextual intelligence provide meaning by defining the problem that a group confronts. They understand the tension between the different values involved in an issue, and how to balance the *desirable* with the *feasible*.

Contextual intelligence consists of cognitive analytic capabilities and of tacit knowledge built from experience. Tacit knowledge tends to be implicit and inarticulate, or expressed in *rules of thumb*. In some situations, *street smarts* are more important than *school smarts*. In novel situations, *judgment* matters more than *experience*.

Contextual intelligence also requires emotional intelligence. Without sensitivity to the needs of others, pure cognitive analysis and long experience may prove insufficient. Jimmy Carter had good cognitive skills, but was often faulted on his contextual intelligence. As one wag put it, *he was better at counting the trees than seeing the forest*.

The best leaders transfer their skills across contexts. Leaders who have a *fixed repertoire of skills* are limited in their responses to new situations. They need to develop *broader bandwidth* and tune carefully for different situations. LE

Joseph S. Nye, Jr. is University Distinguished Service professor at Harvard and author of The Powers to Lead *(now an Oxford University Press paperback). Visit www.hks.harvard.edu.*

ACTION: Enhance your contextual intelligence.

Women Power

It will rule the world.

by Muhtar Kent

DRIVING INTO WORK one morning, I got stuck in traffic and tuned into a report on the radio about China's rise in the world. Some economists predicted that China would soon eclipse Japan as the world's second largest economy. *It already has*—five years ahead of most projections!

No one chronicles the economic rise of nations better than Yale professor Fareed Zakaria. In *The Post-American World*, he writes about the nations that will drive the 21st century economy, and the implications for America.

I think there's another way of looking at this. I'd say that the real drivers of the *Post-American World* won't be China, India, or Brazil—or any nation. ***The real drivers will be women***: women business, political, academic and cultural leaders, entrepreneurs, and innovators. *Women are the most dynamic and fastest-growing economic force today*. They control over $20 trillion dollars in spending worldwide (an economic impact larger than the US, China, and India combined. In the U.S., *women-owned businesses* account for $4 trillion dollars in GDP—this would constitute the fourth-largest economy in the world! Today, one in 11 working-age women is involved in entrepreneurship.

The 21st century is the Women's Century. As we look for ways to restart and reset the global economy, the solution lies right in front of us. In the words of World Bank President Robert Zoellick, gender equality is "smart economics."

I've been managed by women all of my life—beginning with my mother—and I like to think they've done a wonderful job. As a business leader and someone who has the responsibility of creating shareholder value for the world's most recognized brand, I feel a sense of urgency in ensuring that conditions are ripe for women to thrive around the world. Call it self-interest or enlightened self-interest—creating a climate of success for women globally is simply smart business for a consumer-products company. In fact, it's smart business for any company.

Empower women to recharge the world. We see a *direct correlation* between *women's empowerment* and *national GDP growth*, *business growth*, *environmental sustainability*, and *improved human health*, to name a few things. The family, community, and social implications are vast. *Our consumer research points to women as the household opinion elites*. Women determine what comes into the home and in what quantity and frequency. Women account for most purchase decisions for our beverages. In fact, they represent 70 percent of all grocery shoppers. So, at Coca-Cola, we can't grow our business or reach any of our long-term goals without greater women's economic empowerment and entrepreneurship worldwide. In fact, *no business or economy* will grow without this.

Growth projections for China, India, Africa, and North and South America can't be met without women's economic empowerment. The only way a projected billion people will rise to middle class in the next 10 years; the only way the world will grow $20 trillion dollars richer; the only way more nations will

rise out of poverty and become politically stable —will be by women achieving gender parity. If we fail in this regard, the world's economy will fail.

We still see too many roadblocks—*cultural, educational, political, financial, and technological*—***to women's empowerment.*** As President Obama's Ambassador for Global Women's Issues Melanne Verveer said about the lack of access to capital for women entrepreneurs: *Too many of the best business ideas die in bank parking lots. That's got to change, and it will change*.

Three Things We can Do

I see ***three ways*** that business, government, academia and non-profits can help generate female empowerment:

1. Accelerate women's leadership within our walls. I serve as chair of our company's Women's Leadership Council, which we initiated three years ago. The program is built around three focus areas: building a leadership pipeline, creating an enabling culture that values personal sustainability, and driving employee engagement.

One concern for our women employees globally is *work-life balance*. To ease some of the burden, we initiated flexible-work arrangements and provided a global framework and tool kits for our business units around the world.

In addition, we've grown the number of women in upper management positions, and *our female employee engagement rate is now higher than our overall engagement rate*. Today, *women hold top leadership positions* in our finance group, make up half of our Public Affairs and Communications leadership team, and about half of our legal team. We have women in our top science and regulatory, quality and HR positions. Our European operations are led by a woman, and our operations in my native country, Turkey, is run by a woman.

We have aggressive metrics embedded into our 2020 Vision—our growth path forward. We are expecting to *double our volume and revenue*, to *be among the greatest places to work*, and to *be even more consumer focused, more community focused, and more environmentally focused*. We can't do any of that without greater participation of women at our senior ranks. For Coca-Cola, this is mission critical. The keen insights women bring to our business are profound. As more women worldwide gain economic power, we need to be there to ensure the right shopper insights, the right mix of products, and the right marketing and merchandising strategies.

2. Bring more women-owned businesses into our supply chains. Because of our global reach and influence, we can be powerful agents of constructive change. One exciting program at Coca-Cola is our Micro Distribution Center (MDC) network in Africa. This enables entrepreneurs to set up MDCs on behalf of our company in areas where poor roads and infrastructure make it difficult for delivery trucks to travel. They distribute our products to retailers, often by bicycle or pushcart. *Most* of our sales in Kenya, Tanzania, Uganda, Ethiopia and Mozambique are the result of this model. Almost 1,000 of these businesses in Africa are owned by women. Rosemary Njeri has run a MDC in Nairobi for 10 years. She now employs 16 people and has educated her three children.

Consider *the multiplier effect* of such actions. Today, we work with 10 million women-owned or operated businesses—from suppliers and distributors to retailers—that derive a major portion of their profits from Coca-Cola.

Recently we committed to help empower 5 million women entrepreneurs by the year 2020. I have seen the power and conviction of our system, and when we put our mind to something we achieve results. To achieve this, we'll partner with other companies, governments and civil society organizations to bring all of our skills and resources to bear to help break down the barriers that small businesswomen face—barriers like access to credit, peer networking, and basic training.

We'll give high potential women in our system a chance to champion and manage this work. We can transfer so much business knowledge to emerging entrepreneurs: basic accounting, business planning, marketing, merchandising, customer service, and legal advice—to name a few areas.

And we're encouraging all Coca-Cola associates—men and women—to *support women small business owners via one-on-one mentoring and training*. This initiative will also reach millions of men. All boats will rise. As our suppliers and retail customers gain greater skills and empowerment, their businesses will reflect this, and Coca-Cola's business will reflect this. We are all in this together. As women rise in their communities—*the communities rise to new heights of prosperity and health*.

3. Stay committed to sustainability initiatives. Recommit to sustainability programs—educational, environmental, human-health, cultural, and economic-development initiatives. All of these touch and influence women's empowerment and entrepreneurship. In the communities we serve in 206 countries, we've learned that *everything is interrelated*. Water is central to our future. *Water is also a women's economic empowerment issue*. For example, in Mali, we dug a well in a rural village so that women wouldn't have to spend eight hours a day hauling water. This enabled them to reinvent their lives—and start their own catering business.

Smart organizations will see that the 21st century is the Women's Century. Women's economic empowerment and entrepreneurial growth will drive the world's economy to new heights. For all of us—the implications will be vast. Everyone's success will be contingent upon women's success. *This is not a battle of the sexes—this is a battle for preserving and enhancing the world's economic, environmental and social fabric*. **LE**

Muhtar Kent is Chairman and CEO, The Coca-Cola Co. This article is adapted from his speech at the Yale World Fund Lecture *and used with permission of* Vital Speeches of the Day. *Visit www.VitalSpeeches.com.*

ACTION: Empower women in your workforce.

ETHICS EXAMPLE

Visible Hands

Be an example of ethics.

by Sharon Allen

ADAM SMITH WROTE about the *invisible hand* that drives free markets. I believe that another *invisible hand* drives free markets—the shared language of ethical values that enables people to conduct business with each other, where *a deal can be sealed with a handshake* and *your word is your bond*.

Ethical leaders help create robust markets where trust and integrity can prevail. But often, we see headlines that tell of decision-makers who failed to consult with their ethics and compliance officers or with their own moral compass, and who made choices that took them dangerously off course.

Today, we face a challenging economy—because of choices made by certain leaders. All leaders are entrusted with a mission, and many people count on their leaders to help build an ethical future. Ethical behavior keeps us connected. Every day, people decide who to follow. It is crucial that they cast their ballots for you and what you stand for. But you have lots of competition for their votes—especially from ***role models in popular culture***.

The power of role models cuts both ways—good and bad. Twenty years ago, two powerful role models in business weren't even in business. They portrayed on film a style or creed that some would later adopt. For 13 seasons on *Dallas*, J.R. Ewing (Larry Hagman) took business ethics on a race to the bottom—doing *whatever it took* to crush his competitors. Now, Michael Douglas reprises his role as corporate raider Gordon Gekko in *Wall Street II: The Money Never Sleeps*. We all recall his iconic speech to shareholders: "Greed is good. Greed is right. Greed works."

Overcome Three Disconnects

To build an ethical future, leaders need to overcome three disconnects:

1. Generational. Young people today are fascinating. Some refer to them as *Generation Me*. I prefer to focus on their strengths. Millennials are smart, confident collaborators who work in teams (or cyberspace) with ease. However, their moral values may not be strong. We must fix this disconnect, by connecting with them on their terms. At Deloitte, we've revamped our *Ethics in Action* training for new hires by making it online, interactive, and attractive.

2. Short-termism. Millennials are less likely to stay with a company for five or more years—and twice as likely to leave within one year—than older counterparts. The pressures that come with expectations of *continuous growth* can cause leaders to be short-sighted, driven by short-term goals. The hidden costs become visible when a stable workforce, long-term investment, and a sustainable business disappear. *I see a link between short-termism and unethical conduct.* The nature of short-termism disdains the work that long-term relationships take while embracing the payback of quick, impersonal transactions. The mortgage crisis is an example. Whether it was the borrower seeking the loan, the banker making the loan, or the broker packaging and selling risky obligations, *the only glue that held them together was the transaction*. Some might call it *enlightened self-interest*. I call it *a recipe for unethical behavior*.

3. Trust. Trust seems to be in short supply: *34 percent of employees will likely look for a new job when the economy improves*; of those, 48 percent cite *loss of trust in their employer* and *lack of transparent communication from their leaders* as their reason. Like ethics, trust is good business. Low trust is expensive. You build relationships of trust through direct, regular, and open interactions. At Deloitte, our ethics campaign includes training called the *Power of One*. It recognizes the importance of our choices and behaviors and how we each have the responsibility to act with personal integrity to sustain the public's trust.

An unethical culture can bring down an enterprise. So, draw the connection between *ethical behavior* and *the value of the enterprise*. Ensure that *how you conduct business* is worthy of the value your customers expect and represents the values of the enterprise. You can be more than an *invisible hand*. Through the influence of your example, give people reasons to follow you. **LE**

Sharon Allen is Chairman of the Board, Deloitte LLP. This article is adapted from her speech at the Ethics and Compliance Officers Association meeting, Sept. 22, 2010.

ACTION: Be the visible hand of high ethics.

Smart Negotiations

Take 10 steps toward gain-gain.

by Robin L. Pinkley

IN THE FIRST ARTICLE OF this series on mastering negotiations, I discussed the importance of a *Master Plan and Perspective*. The second article outlined the *Process*. In this article, I examine *10 steps that you can follow* to simplify and organize the planning approach for a negotiations process and help you *keep your eye on the prize*.

Step 1: Never forget your true goal—to maximize your gain. Remember *ME* comes before *WE*, but you need *them* to get there. Only you decide if you move, how much and in what way.

Step 2: Prepare or don't play. Learn *all you can* about the other party, including personal information, and keep a clearing house of notes for the future. Learn about the context in which the other party functions—industry, customers, vendors, partners, competitors. Use connectors to your advantage. Create viable alternatives and determine how you can decrease their real or perceived best alternative. Know your value to them and how to reduce their perception of the value they bring you. *Create a living, dynamic MAP to guide you* with positions, interests, priorities, and prepared reactions to resistance or games. Plan your bidding and counter bidding strategy. Practice and role play.

Step 3: Empathize with the other side, don't sympathize. Put yourself in their shoes—and head. If something doesn't make sense, ask *how you'd feel in their shoes* and *how you can use this information*. Consider *how you'd respond to what you are saying* and *what would motivate you to say what they're saying*. But don't lose sight of the prize—*ME* comes before *WE*. Invest in the person by being personal, but not by giving up value. Be firm about value, but flexible in the form of that value.

Step 4: Teach them to empathize with you. Use *the language* of the other party and what they've said—put it in their terms. Emphasize "I'm just like you."

Step 5: Manage yourself. Take a hard, honest look at yourself and develop strategies to use your strengths and minimize your weaknesses. Be trustworthy, but verify what you're told. While most people are trustworthy, many are not, and you can't tell by looking at them or talking to them. Believe what you say and say what you mean. Use the power of conviction and transparency. Be responsive but not too available. Trust your instincts. *Play by the rules you ask them to play by*.

Step 6: Manage the other party. Make *the deal worth their while, while making them play by their own rules*. Get *guarantees*, not *promises*—rebates, not volume discounts. Use the power of principled persuasion, based on reciprocity, scarcity, authority, consistency, consensus and making friends to influence people. Discounting does not produce a friendly relationship—but a friendly relationship reduces the need to discount.

Step 7: Exchange information before you exchange value. Don't sell any deal *until you know what can and should be sold*. Listen with your *ears,* not your *mouth;* and don't interrupt. Also listen with your *body* (to manage them) and your *mind* (to manage you). Challenge your assumptions and take notes to *see what's missing*. When they finish, pause to collect your thoughts and enable them to say more. Acknowledge what you've heard. Repeat key points, and *express empathy* and *understanding, not agreement*. Ask questions. Model good behavior and set rules. Don't apologize for the need for you (*and* them) to obtain value. Prepare to respond to questions that you do not want to answer. Don't ask questions if you don't know what to do with the answer, or if they incent the other party to lie. Prepare to say *no* and explain why. Provide *solutions*, not just problems. *How you say something* can have more impact that *what you say*.

Step 8: Time is on your side. Share your time *deadlines*, but not your time *costs*. To maintain momentum—feed a conversation, starve an impasse. Use a time-out when needed to think, get them to move, or reduce emotion.

Step 9: Consider implications for the future. What *precedent* will this deal set and *how it will impact the future deals*? Know what happens if the other side doesn't follow through—is this part of the agreement? Is the deal enforceable?

Step 10: Refine and learn. This *Gain-Gain* approach increases your effectiveness, and creates a *coordinated team effort* that sends a *consistent message*. **LE**

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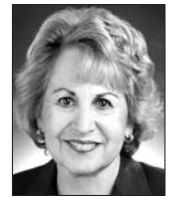
ACTION: Make your negotiation more effective.

Talent Management

Create a sustainable advantage.



by Lance Berger and Dorothy Berger

TO CREATE A SUSTAINABLE COMPETITIVE advantage, leaders must first create a ***culture of excellence***. These are characterized by creativity, innovation, sustainability, engagement, achievement, collaboration, diversity, and ethics. The primary way to create such a culture is to implement a *proactive talent management* (TM) *process* with three elements:

1. Creed. A TM creed is composed of a widely publicized set of core principles, values, and mutual expectations that guide behavior. Collectively, the stated principles depict the type of culture an organization strives to create to achieve its unique portrait of success. The principles of the creed are embedded in both the TM strategy and system by incorporating its doctrines into selection criteria, competency definitions, performance criteria, and internal selection and development processes.

Johnson&Johnson states: "Our *Credo* is more than just a moral compass. We believe it's *a recipe for success*." ***Microsoft*** expects its values to guide behavior and shine through in all interactions. Most companies have updated their creeds to include *social responsibility*, *sustainability*, *ethical behavior*, *innovation*, and *creativity*. ***Starbuck's*** creed includes *Six Guiding Principles*: 1) Provide a great work environment and treat each other with respect and dignity; 2) Embrace diversity as an essential component in the way we do business; 3) Apply the highest standards of excellence to the purchasing, roasting and fresh delivery of our coffee; 4) Develop enthusiastically satisfied customers all of the time; 5) Contribute positively to our communities and our environment; and 6) Recognize that profitability is essential to our *future success*.

2. Strategy. *A TM strategy makes explicit the investments made in the people who are believed will best help it achieve competitive excellence*. A TM strategy views a workforce as a portfolio of human resource assets that are differentiated based on an assessment of each person's current and potential contribution to success.

The criteria for selecting the people who will receive different investments are rooted in the talent creed. The TM strategies of most high-performing organizations contain three directives:

1. *Cultivate the people who will make the biggest contribution now and in the future.* They seek and inspire others to superior accomplishments, and embody the creed, core competencies, and values. Their loss or absence inhibits growth because of their impact on performance.

2. *Retain key position backups.* Gaps in replacement activity for incumbents in key positions are disruptive, costly, and distracting. Key positions should be staffed by, and have replacements who exceed performance expectations, develop others, and role-model the creed.

3. *Allocate training, rewards, education, assignments, and development based on the actual and potential contribution of people.* To properly allocate funds, you must classify employees based on their actual ability (or their potential) to add value on the basis of three criteria: their *performance and competencies*, their *leadership and development of others*, and their *modeling of the creed*.

3. System. You next need a TM system—procedures and processes for implementing the creed and strategy. The best TM systems have: *assessment tools* (competency assessments, performance appraisals, potential forecasts, and succession and career planning); *multi-rater assessments*; and *diagnostic tools* that identify: high-potential employees, key position backups, key positions with no back-ups, positions with surpluses. Developmental resources are allocated based on the *actual* and *potential contribution* of employees to success.

Monitor and fine tune your TM system. Use three measures: *Quality*: Is the strategy delivering results as measured by the pipeline of top performers and highly qualified backups for key positions? *Timeliness*: Does the system work in a stated time frame or is it viewed as too protracted as a decision-making process? *Credibility*: Are managers and employees engaged by the system? Do people believe that the system is fair?

Our ***TM model*** consists of three linked elements: *creed*, *strategy*, and *system*. The model requires that the principles of the creed be embedded into the TM strategy and system by incorporating its doctrines into selection criteria, competency definitions, performance criteria, and development processes. **LE**

Lance and Dorothy Berger are partners in Lance A. Berger & Associates and coauthors of The Talent Management Handbook *(McGraw-Hill). Visit www.lanceberger.com.*

ACTION: Fine tune your TM strategy and system.

PERFORMANCE CULTURE

Employee Relations

Stars, stripes and soccer players.

by Zannie Giraud Voss and Glenn Voss

CULTURE SETS A TONE FOR PERFORMANCE. How employees *relate to each other* affects performance, and competitive advantage. ***Four relational models*** form the building blocks of human relationships: *market pricing*, *authority ranking*, *communal sharing*, and *equality matching*.

Giving a reward for *good behavior* or *outstanding performance* is *market pricing*—creating *stars*. *Authority ranking* is central command where leadership and control prevails—building respect for those with *stripes*. The *communal sharing* idea relates to whether we are acting in unity, as a group—training *soccer players*. *Equality matching* is similar to democratic voting and equal shares—and is less effective in the workplace.

Firms develop *idiosyncratic models* that enable *cooperation*, impacting the ways employees interact and are motivated. To sustain *cooperative behavior*, all firms must develop some *behavioral norms* and *basic assumptions about human relationships*, such as how decisions are made, and contributions and roles defined.

Performance can be measured in terms of *workforce retention*, *revenues from innovation*, and *sales revenue*. Retention is a key performance indicator since employees hold the firm's knowledge, create value and innovation, and represent a firm's *most critical resource*. Employee relationship norms have different implications for cooperation, information sharing, and creativity. Innovation that increases performance can be determined by measuring revenue streams generated by intellectual property. *Employee behaviors ultimately affect customer purchase decisions*, making sales revenue an indicator of performance relative to customer markets.

Firms perform better—in terms of workforce retention, revenues from innovation, and sales revenue—*the more they emphasize communal sharing*, while placing moderate emphasis on *authority ranking* and *market pricing*.

Communal sharing—the idea of group unity, solidarity, being part of a clan—is *working together as a team* and *the absence of opportunistic behavior*. Think of Japan in the 1980s with its model of group work in quality with accompanying long-term benefits.

As part of their recession recovery plan, German workers shared in cutbacks in hours worked (30-hour work-weeks) rather than losing jobs. Many attribute Germany's quick exit from recession to their shared effort.

Emphasizing authority ranking or market sharing may lead to decreased performance. Consider incorporating other models in specific ways or areas to increase performance. Perhaps it's a boost in R&D by communal sharing, or incentives added through market pricing to increase innovation.

A critical element of *corporate effectiveness* is *finding the right model and mix*. There's no magic bullet. Authority ranking and market pricing should be done in moderation. In the German culture, there's a lot of authoritarianism. Having *communal sharing* doesn't mean *authoritarianism* or hierarchy does not exist. It's a balancing act.

In contrast to Germany is the lack of balance evident in U.S., U.K. and Irish financial firms. In the recession, they relied heavily on *market pricing*. Extreme market pricing leads to the *star* system. It's difficult to set up that system without alienating the bottom and middle levels. Topping up a CEO's salary while the rest of the firm's HR budget languishes does not set a positive tone.

In balancing *authority* or *market pricing*, low *authoritarianism* might be seen as a lack of leadership and direction. And, without *market pricing*, employees may not be incented to perform better relative to colleagues and competitors.

You need to know when to use which model. If improved *retention* is needed, for example, know where you are in relation to these different models, and modify. One firm may make decisions by consensus (*communal sharing*), but distribute pay raises based on individual contribution (*market pricing*). Another may rely on strong *authority* to make decisions, but engage in *communal sharing* when developing products.

The challenge is to find *the best blend* of stars, stripes and soccer players. **LE**

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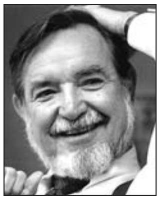
ACTION: Create the best mix for your culture.

Enterprising Economy

It is based in competent community.



by Peter Block and John McKnight

THE COMMUNITY IS *the natural nest* for hatching new enterprise—the birthplace and home of small business, which provides the largest growth in employment. Friends and family often provide the capital and sweat equity to start a business.

The *culture of a local community* is a key factor in nurturing entrepreneurial spirit. A community where local people feel they are a center of enterprise creates the vision and support. The culture encourages people to initiate enterprises, members use their buying power to support local enterprises, and they put their savings to work in community credit unions and banks.

Their dollars circulate, providing the *economic support* that parallels and strengthens *local social support*. Some communities even have a *local currency* to *incentivize support* of local economy.

A related economic power of a connected community is *access to jobs*. One-quarter of job seekers get information from relatives, friends, and neighbors.

Strong *community connections* spawn new enterprises, sustain them, and provide primary access to employment. Without these functions, the economy becomes a land of large-scale institutions unable to sustain a local workforce (*and so large they're destined to fail to serve any interests but their own)*.

In consumer ecology, *care* is co-opted by systems; businesses, agencies and governments. Insurance agencies send letters to tell us they *care* about us. Charities ask us to give money to pay for the *care* of people. Government pays hospitals and medical professionals for their service (*Medicare*). In each case, they are providing a *paid service*—not *care*. Systems offer services for pay. *Genuine care can't be paid for—it is given, free of charge*. You can pay for services for your mother in a nursing home, but she may lose the care of family, friends, neighbors, faith, and service groups. They become *visitors* to a service system; she becomes a *client*.

The place to look for care is in the dense relationships of neighbors and community groups. We have a *competent community* if we care about each other, and about the neighborhood. Together, our care manifests a vision, culture, and commitment that can *uniquely* assure our sense of well-being and happiness. This source of satisfaction is complete in and of itself—not dependent on the next purchase.

No business, agency, or government can fulfill basic community functions. If we don't know our neighbors, aren't active in local community life, pay others to raise our children and service our elders, and try to buy our way into a good life, we pay a big price. We produce a weak family, careless community, and a nation that tries hopelessly to revive itself from the top down. Reversing this situation is difficult because of the power of *systems* to make consumers out of citizens.

By seeing the consumer ecology for what it is, we can become citizens again. We can shift our thinking and decide who we take ourselves to be: *producers of our own future*, or *purchasers of what others have in mind for us*. Consumer society begins when *what was once the province or function of the family and community* migrates to *the marketplace*. It begins with the decision to purchase what might have been homemade or produced locally. This is how *citizens yield their power to the lure of consumption*.

Consumption is like an addictive drug. The market promises what it knows won't be fulfilling. This defines its *counterfeit nature*—trying to make *something appear to be gratifying or satisfying when it is not*. The fact that dissatisfaction persists after achieving *the good life* means *the good life is not satisfying*. Unfunctional families and incompetent communities signal that we've reached the limits of consumer satisfaction.

For example, we talk of the child as a *product* of *the School System*, starting early the migration of the child from citizen to consumer, from family and community life into system life. We count on *the School System* to perform many family functions—to feed, discipline them, and provide custodial care.

The same *dependency* goes for other family functions—like health, entertainment, nutrition, employment, mental well-being, elder care, and environmental stewardship—*all have been outsourced to professionals*. All are *organized in systems* designed to deliver these functions in *efficient, low-cost, consistent ways*.

We made the leap from *being citizens* to *being consumers* in a culture that sells the idea that a satisfied life is determined first by defining and promoting needs and then figuring out how to fulfill them. We create a larger market by determining that *families and communities are filled with needs that are best serviced by systems and professions*.

Consumerism offers purchased solutions to being human, providing a substitute for what could come naturally to families and communities. This is *the more profound cost* of the consumer promise, the *denuding of community capacity*. The institutional counterfeit of compassion and support is a two-part package: first, the *spin* of optimism backed up by a purchase; and, second, the *denial* when it does not happen.

For example, in advertising we are promised immortality, eternal youth, and happiness. This promise is elegant, moving, entertaining. At the end, *ways the product could hurt us* are described in small print or spoken rapidly—accentuate the positive, eliminate the negative. We call this *spin*. Responses of *spin* and *denial* are designed to keep organizations on course. Systems can't allow sorrow to become personal. When systems lift the veil of *denial* and *spin* to apologize or express sorrow, it is either because they're forced to by law, or it is long after any consequences.

The effort to *find a fix for our humanity* only forces us into counterfeit promises and unsatisfying results. Often we believe that if we do *more of what does not work*, it will finally work. This is the dilemma of the consumer economy: it leads to a place where when we reach a limit and still are unsatisfied, we think, *if only we had more we would be successful or satisfied*—more police, physicians, teachers, services, stuff. This is not a *solution*—it's an *addiction*. Consumerism is not simply an economic system—it can be considered an ecology. It impacts how we relate to each other; it shapes our relationship with food, work, music, ritual, religion—all *elements of culture*. And for this ecological system to work, we have to participate in the effort to purchase what matters and persist at it, despite the lack of results. This consumptive ecological system produces hollowness in our lives, even for those who are *winning* at the game.

Hold Six Conversations

To achieve an enterprising economy, hold *Six Conversations that Matter*:

1. Invitation conversation. *Transformation* occurs through choice, not mandate. Invitation is the call to create an alternative future. What is the invitation we can make to support people to participate and own the relationships, tasks, and process that lead to success?

2. Possibility conversation. This focuses on *what we want our future to be* as opposed to problem solving the past. It frees people to innovate, challenge the *status quo*, break new ground, and *create new futures* that make a difference.

3. Ownership conversation. This conversation focuses on *whose organization or task is this*? It asks, "How have I contributed to creating current reality?" Confusion, blame and waiting for someone else to change are a defense against *ownership* and *personal power*.

4. Dissent conversation. This gives people the space to say *no*. If you can't say *no*, your *yes* has no meaning. Give people a chance to express their doubts and reservations, as a way of clarifying their roles, needs, and yearnings within the vision and mission. Genuine commitment begins with doubt, and *no* is an expression of people finding their space and role in the strategy.

5. Commitment conversation. This conversation is about making promises to peers about your contribution to the success. It asks: *What promise am I willing to make to this enterprise?* And, *what price am I willing to pay for success*? It is a promise for the sake of a larger purpose, not for personal return.

6. Gifts conversation. Rather than focus on *deficiencies* and *weaknesses*, we focus on the gifts and assets we bring and capitalize on those to make the best and highest contribution. Confront people with their core gifts that can make the difference and change lives.

Other conversations may also be important, but these six are vital to shift to a future where each citizen, employee, or individual chooses to take responsibility and own their role in shaping the future. LE

Peter Block and John McKnight are co-authors of Abundant Community *(Berrett-Koehler). Visit www.AbundantCommunity.com.*

ACTION: Hold these six conversations.

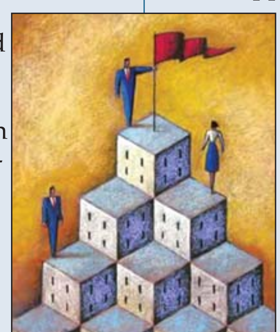
Built on Values

Inspiring a values-rich culture.

by Ann Rhoades

THE BEHAVIOR OF LEADERS tells *the real values* of a company. Often, the values *as they are lived* bear little resemblance to *stated values*—sanctified in a mission statement. Some leaders believe that all they need to do is proclaim a set of values and culture will magically change, but that does nothing to retool the values that control actions on the front line. Changing those *inherent values* takes more effort and can't be done by any leader or executives acting alone.

A culture that *works for your company*—and fits with your leadership, values, products, customer desires, and employee aspirations—can only arise *organically*. You either encourage the behaviors you want in your culture, or they don't happen. As leaders, we tend to identify our values and build our cultures on shared behaviors, but there is no reason why the people in our companies can't do it on their own. The key is identifying your best employees—your A Players—and spread their values by hiring people who share those values and motivating all employees to live those values every day in their behaviors.



We call this the *Values Blueprint* way of changing culture. I've seen it create culture change in many organizations (teams can also use this blueprint to create *islands of excellence*, even when top leaders are not ready to buy in (you can lead them to it by getting results).

I find that ***six principles*** inform successful values-based culture change:

1. You can't force culture—you can only create environment. A *culture* is the *culmination* of the *leadership, values, language, people, processes, rules, and other conditions, good or bad*. Leaders are most instrumental in creating the *environment* and provide the most direct *influence* on it. However, they can't *create culture*—only the right conditions for it to arise.

2. You are on the outside what you are on the inside—no debate. You can't create a *great customer service organization* if you treat people badly. You can't force people to treat customers well when they feel ill-used themselves. Organizations that are best in customer service also treat their employees best. The service you provide for your customers will never be greater than the service you provide to your employees.

3. Success is doing the right things the right way. Well-defined values can help you, and your employees, make better decisions. In values-rich companies, the front line is where most decisions about customer service are made. So, empower front-line people with tools and knowledge to handle problems personally and immediately. The win is a happy customer who did not have to speak to a supervisor. By defining your *values* and the *behaviors* based on them, you simplify decision making: "Does that make sense in light of our values?" is all you have to ask yourself.

4. People do what they are incented to do. *Reward the right behaviors* to achieve desired outcomes. This is made easier with values-based performance metrics. Also, your values will be perceived as hollow unless you *base compensation and rewards on expressions of the behaviors that go with the values*. Hiring and performance appraisal methods, too, must be revised to *select people who display these values*. And you must be courageous to fire those who don't, including long-time employees and executives; otherwise, they'll render your ideal culture impossible.

5. Input = Output. *You get out of something what you put into it*. Values maintenance—continuous improvement—is as important as values creation. You're never fully *done* with culture change; you must be vigilant that *no one backslides into old ways*. This requires monitoring of progress, as well as values-based leadership development and succession planning.

The culture you want can be built on shared, strategic values—and financial responsibility. Identifying shared values—and acting on them—creates a healthy culture. Those values should also be vetted in terms of responsible fiscal management. *Happy-talk values* that result in spending money on questionable programs are not sustainable values. A values-rich culture is likely to save millions of dollars. Values are most critical when making tough decisions—that is when they *illuminate the way forward*. LE

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ACTION: Build on the values of your A Players.

Creative Leadership

Leaders are performing artists.

by Roland Deiser

CREATIVITY IS CENTER stage, due to two trends and five drivers.

Trend 1 is the rise of the Creative Class and importance of creative talent in a knowledge economy. In his book *The Rise of the Creative Class*, Richard Florida says that this class includes not only artists (writers, painters, actors, musicians) but *everybody for whom creativity is an essential element of professional life*. This includes knowledge workers who produce or deal with intellectual capital, such as software developers, advertisers, designers, architects, engineers, scientists, inventors, consultants, educators, and others. About 30 percent of the workforce belongs to this class—and their share is rapidly rising. The number becomes even larger if we include entrepreneurs and ***all who have leadership responsibility*** in networked organizations. *Their work is creative, too*.

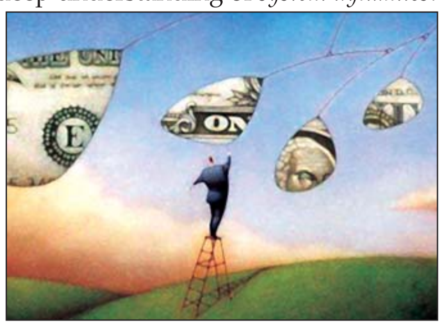
Trend 2 is the rise of Creative Competence as a critical success factor. This competence grows in importance as practices like strategic management, innovation, organizational design, talent management, and the ability to lead in networked organizations are dominated by the creative paradigm.

Five Major Drivers

Five drivers also boost creativity:

1. Strategic management is now creative art, not exact science. In environments that are *unpredictable* and *driven by disruptive change*, market analyses and predictions based on the extrapolation of trends quickly become obsolete. Today's realities call for *creating a just-in-time strategic management process that pervades the company and includes the relevant stakeholders of the enterprise system*. Rather than limit strategic discourse to secretive strategy departments, leaders need to *foster creative strategic dialogue* across boundaries and at all levels. They need to identify and capitalize on *opportunity spaces* that can redefine the rules of the game. Strategic leadership is primarily a *creative* challenge.

2. Creative organizational design is the new strategic weapon. Hierarchical control, functional silos, and an obsession with formalization are obsolete in our connected, fast-changing world. To master the strategic innovation challenge, companies need a *culture of agility and learning* that supports *high performance* and *reinvention*. They need: *enabling structures, mechanisms, processes, and policies that encourage and support creative dialogue and experimentation; principles that help to address disruptions and discontinuities with creativity, courage, and intuition, just in time, with a minimum of red tape, across boundaries; and highly efficient processes*. Design can no longer be based on a mechanistic understanding of *command and control* that relies on hierarchical power differentials. It must provide spaces that foster entrepreneurship and enable people to live and explore their potential. Crafting and implementing such designs is an architectural challenge that requires high creativity and a deep understanding of *system dynamics*.



3. Innovation is king. Companies need to develop *innovation competence*. In the last century, the focus was primarily on *product innovation* (R&D). *Today, products are a small part of the innovation challenge*. The most innovative product development can't compensate for bureaucratic and silo cultures that can't collaborate effectively in the *flat world* of global value networks. We need a more comprehensive view of what *innovation capability* means, with an emphasis on design and business model innovation, together with the leadership capability that can manage these innovation elements in an integrative way. Then, virtually all employees—and stakeholders —become potential participants in the discourse about the way things are done. This new *innovation imperative* requires people with a creative spirit who think laterally, collaborate in networks, and have the cognitive and emotional ability to challenge the status quo—traits that we find in the *creative class*.

4. Design and brand are the major competitive differentiators. Product quality as a decisive success factor is decreasing as *even more complex products turn quickly into commodities*, and quality and reliability are just *tickets for market entry*. We outsource easy-to-imitate elements of the value chain to low-cost countries. What remains is the complex task of *orchestrating the many elements of a global network of partners and alliances and to create differentiation through design, branding, reputation management, and customer engagement strategies*. As these *intangible product* attributes increase in importance, so does the role of creativity and intangible asset management.

5. Creative talent—and its appropriate management—make all the difference. The responsibility to *think and act strategically* must become pervasive, not restricted to the C-suite. And strategy and innovation need *active engagement* of the external stakeholder network. This requires a *radical rethinking* of traditional talent management. Members of the *creative class* are smart, self-reliant, and motivated to live their dreams and realize their potential. They need *an enabling environment*—a creative, flexible, non-bureaucratic culture—to thrive. *The ability to attract, lead, and retain creative talent boosts your creative competence and yields a decisive competitive advantage*.

Strategy, organization, innovation, branding, and people are driven by the creative imperative. Meeting this challenge requires *a comprehensive approach to managing organizations and the stakeholder network*. Developing and sustaining *creative competence* requires designs that enable the power of networks within and beyond boundaries. It calls for a new *culture of leadership* that shapes horizontal, non-hierarchical relationships without relying on formal power and control. It requires *courageous leaders* who can: deal effectively with the difficult egos of creative spirits; keep them in check while nurturing their potential; support their aspirations; respect their desire for independence; and experiment with innovative business models.

These are *major challenges* for leaders who are driven by *numbers*, measurable KPIs, and an obsession to plan and control. The transition is hard, as it touches *the essence of management and leadership*. It requires courage to *let go* and rely on the power of horizontal collaboration, supported by new ways of governance based on trust and engagement. **LE**

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ACTION: Cultivate creative leadership.

AS A SPECIAL SUPPLEMENT TO *LEADERSHIP EXCELLENCE* THIS MONTH, I INCLUDE MY EDIT OF THE *EXECUTIVE SUMMARY* OF PRESENTATIONS AT THE **2010 HSM WORLD BUSINESS FORUM** (NEW YORK CITY, OCT. 5-6; VISIT WBFNY.COM OR HSMGLOBAL.COM).

Jim Collins: Sustaining Great Results

I SEE FIVE STAGES OF AN unhealthy company:

Stage 1. Hubris born of success. Bad decisions taken with good intentions are still bad decisions, and the antidote is for leaders to have a special brand of humility and extreme ambition for the cause—not themselves. Great leaders have the guts to cut off their arm if it has cancer—they make that sacrifice with the stoic will to do whatever it takes to make their enterprises great.

Stage 2. Undisciplined pursuit of more. Everybody loves you for your overreaching—until you fall. Great enterprises are more likely to die of indigestion than starvation. *Packard's law*, named after David Packard, founder of Hewlett-Packard, states: "If you allow growth in revenues, growth in scale, growth in new adventures to exceed your ability to have enough of *the right people in the key seats* to execute on that growth brilliantly, you will fall."

Stage 3. Denial of risk and peril. Never mistake *faith* for *facts*, as *the optimist is at risk of dying of a broken heart*. Admiral James Stockdale told me that as a prisoner of war he survived extensive torture when others didn't because *he was a realist who didn't rely on false hope*. His message is known as *The Stockdale Paradox*: You must never confuse faith that you will prevail in the end—which you can never afford to lose—with the discipline to confront the most brutal facts of your current reality, whatever they might be.

Stage 4. Grasping for salvation. Even with the aid of a heroic leader or game-changing magic bullet, many companies still fail in this stage. The antithesis is building *a culture of discipline*, by consistently pushing in an intelligent direction without stopping. There's not one big push, but *overnight successes are about 20 years in the making*. Have the discipline to look inside and focus efforts; find what you can be the best in the world at—or leave it for others.

Stage 5. Capitulation to irrelevance or death. Companies can fall into late stage 4 and come back when leaders emerge and break the cycle of despair, but you can't come back from Stage 5. Ask yourself: Would there be a clear void if we left the planet? If you don't have the answer, you'll go away. At each stage, symptoms become increasingly evident. Recovery is still possible—until the condition is terminal.

To assess priorities and then align them, do your diagnostics. Don't focus on your career; focus on building a pocket of greatness. How many key seats are on your bus? What percentage is filled with right people? What are you doing to raise that percentage? Double your questions-to-statements ratio. The first question is: How is our world changing, and what are the brutal facts? What's on your brutal facts list? Turn off your electronic gadgets and create white space—one day every two weeks. Create a "stop doing" list. You can only manage your time, not your work. Stop giving titles. The right people for key seats understand they do not have a job—they have responsibilities. Set a *Big Hairy Audacious Goal* for at least 15 years in the future. LE

David Gergen: Changing Role of the Leader

THE ROLE OF THE LEADER is different today. Many of us grew up at a time when a CEO or a General Patton was a lone individual who sent down messages from Mount Olympus. *It's no longer possible to get results by ordering people around*. In a crisis, you need to have command and control; but, in general you need to be able to *influence* and *persuade*. Even young officers have to see if you're willing to take the bullet.

While General Patton was sending messages out, today's leaders are managing a constant two-way stream of information. General David Petraeus is one leader who has mastered virtual connection and communication. You can write him on a BlackBerry, and you'll get an answer within an hour. He is open to feedback and conversations from the troops. He doesn't use it to manage or lead, but to stay informed and connected. However, there's a danger in being connected to volumes of electronic information. It's harder to lead organizations because of the blogosphere that exists today. People are spreading rumors, lies and vicious comments to the point where their leaders feel that they are under assault. Ideally, key staff members should deal with the onslaught of information, and the CEO should focus on running the business. That buffer space between the barrage of information and the work at hand is important. Jeff Immelt, CEO of General Electric, tends to do all his knowledge-gathering and then go off to contemplate.

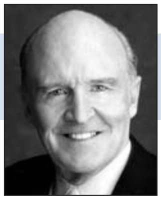
Slowing the pace led to a historic decision and cemented the friendship between President Franklin Roosevelt and British Prime Minister Winston Churchill. In World War II, Roosevelt went by ship to Morocco, and then Churchill persuaded him to take an extra day to see the most beautiful sunset at the top of a mountain in Marrakech. Later that deep bond contributed to some critical decision-making. That bonding and understanding of your partner is very important, as is the time to reflect. During the War, the British were in desperate need of destroyers. Everyone thought that Roosevelt was going to have all these meetings to make a decision; instead, he took a few days to go sailing on the Chesapeake. That's when he came up with the *Lend Lease* idea.

Leaders don't have that luxury of time anymore. Whereas Roosevelt took an extra day in Morocco, I recall a trip that I took to the Middle East with then President Bill Clinton to see the King of Morocco. We flew into Morocco at 2 a.m.; had coffee with the King until 4:30; and flew right back.

I asked the President whether he thought it was wise to be moving at this pace and making decisions so quickly. He didn't even spend a day in Morocco. He said he had no choice.

To make a first-class country, leaders need to identify the best successors and empower them, and to look for diversity of opinion because there is a danger in insulated thinking.

When looking ahead, I predict strong ties will develop between *social responsibility as a leadership priority* and the *sustainable health of the U.S. economy*. The Chinese are eating our lunch on renewable energy. We invent the solar panels, and they are being built in China. They provide cheaper labor and also the subsidies are in violation of the World Trade Organization, yet we haven't turned the screws on them. I end with a rallying call: China created one million jobs, and our factories are shutting down. This country will be in big trouble. Our biggest challenge is whether the U.S. will go into decline or not. It's a question of *leadership response*. LE



Jack Welch: Achieving Success

When lackluster performance and a consistent deficit of proven results confront your organization—regardless of the market you serve—you have to take action, stick to your convictions, and make the tough decisions to get ahead. We'd all like the world to be just the way we like it, but when the chips are down—be it because of the economy or other challenge—leaders might see their customers complaining, competitors charging ahead with new offerings, and underperforming employees bringing other people's morale and productivity down.

I insisted that GE's underperformers be moved out. You have to see employees straight on. You have to be candid—you can't hope that Joe or Cynthia will get better. Sometimes, those lessons reveal, "The difference between candor and abrasiveness is close". The higher you are, the more candid you can be. The lower you are, the more abrasive you are. You have to anticipate the world being worse for you than it appears in the current moment. That last part may be what's required to force tough decisions about people.

These days, I see leadership development rating low on the corporate priority list. But it shouldn't be that way because when you get the best players, you win. What gets in the way of that mandate, so often, are day-to-day operations and leaders' insecurity about bringing on the best talent. Great leaders promote and hire people who are smarter than they are.

The succession process that I helped to orchestrate before my departure from GE has not fulfilled its primary role: to prepare the next generation of leadership. So, I wonder: Where was the leadership development? Where was the succession plan and process?

Part of the reason I was well known for GE's performance measurement of employees was because it conflicts with the approach that so many other companies take: People spend more time trying to make the bottom 10 percent okay than celebrating the top 20 percent of their performers.

Business leadership examples would be equally powerful if applied to education. The education system needs to focus on how it can deliver better student outcomes by reducing the influence of unions and taking action against chronically underperforming teachers.

I launched the *Jack Welch Management Institute* to help advance online education and teaching courses on leadership, hiring, firing and other management essentials. To fix the U.S. education system, we have to challenge the tenure system, reward teachers on merit, not shy away from paying superior teachers a lot more money, and effectively weed out the worst teachers. I would make education look like some of the charter schools where exciting people come to work; they are rewarded and cheered for their work and respected by everyone, and the students are the products and not the teachers. **LE**

Carlos Brito: Building a Performance Culture

It's common to hear people refer to a company's successes or failures the same way one would talk about a sports team. Both require a dream for success, being composed of the right people, having them rally around the dream, and then creating *a culture of ownership*.

As CEO of Anheuser-Busch InBev, I find that three elements are critical to building a high-performance culture:

• ***Dream.*** Companies are formed by people. And if the people in a company all go in different directions, the company can't move forward. Our company has to have a dream—to be the best beer company in a better world. Dreaming small or dreaming big takes the same energy, so *dream big*.

The analogy of a high jumper is relevant when setting your company's dream and the expectations of people. No matter how high the bar is set for a high jumper, the athlete gets just high enough to clear it. The same could be said for that of any corporate department or team. It's about the coach putting pressure on the athlete. We should never be afraid to test the limits. Keep raising the bar to dream, and be public about it.

• ***People.*** You have to worry about getting the best people. Great people attract other great people and challenge them. Similarly, mediocre people attract mediocre people. Leaders can't be afraid to hire individuals who you think with training and time, might be better than you. You need to spend time getting to know your people. Don't leave people to HR alone; it's your responsibility. I have much experienced with hiring and keeping the right people. After multiple acquisitions and mergers, I've identified the one difference between my company and the newly acquired one—it's the *Dream-People-Culture* platform. If you hire and train right, competitors can't duplicate your business. The difference in what you say and what you do is what makes the difference. *Making the right decision isn't always the easy decision*.

• ***Culture.*** It's mission-critical to create a culture of ownership. You want people to feel that they own the business. As a leader, you're more likely to think *If I'm an owner, failure is not an option*.

We tend to express more recklessness in a rental car than we do in our own car. After all, we'll have to pay to fix the scratch or dent on our own car. You don't want your employees to treat their job or their company like a rental.

Creating that sense of ownership will ensure that when an employee makes a decision, it will be done in the company's best interest.

People and dreams can be combined to form a powerful ownership culture that will prevent taking short cuts. Building a company takes time, brick by brick. There are no shortcuts to building a performance culture. Instead of developing their own people, many companies hire from the market almost all the time. This is a mistake. Developing your own people is key. **LE**

Joseph Grenny: Execute on Strategy

After learning something new, you'll likely confront resistance when you try to implement new ideas and strategies. The challenge begins when you return to the office and encounter people who are unwilling to change. You then need to exercise influence.

Consider this influence problem: You're the manager at Air Nippon airways. If passengers used the restroom before boarding the plane, they could lighten the load by 240 pounds, reduce the carbon footprint, and reduce fuel and materials costs. How do you get that to happen? Is it your inclination to influence people monetarily by charging them to use the restroom on the plane or subconsciously by playing waterfall sounds in the boarding area?

By examining your response, you can determine what aspects of influence you tend to rely on, and you may also see some gaps in your thinking.

There are two big reasons people do what they do: because they *want to do something* (motivation) and because *they are able to do something* (ability). Leaders tend to develop *motivational strategies* that don't increase ability.

We've identified *six sources of influence*. 1: Personal motivation: Do I want to do it? 2: Personal ability: Can I do it? 3: Social motivation: Are others encouraging me to do it? 4: Social ability: Are others helping me to do it? 5: Structural motivation: Is the environment right for me to do it? 6: Structural ability: Does the environment support me doing it?

Leaders who understand behavior from each source of influence can develop the most effective influence strategies. Leaders who use all six of these sources of influence are *10 times more likely to secure change*. You can help people link *the behavior that is being asked of them* and *their own core values* by using engaging stories or recreating powerful personal experiences.

What works to change behavior? Whether you're trying to amp up your career, get your finances in order, lose weight, beat an addiction, or save a struggling relationship, you can use ***four proven change strategies*** that will keep you on course without falling back in your old ways: 1) *Identify crucial moments*, moments of greatest weakness, when enacting the right behavior will have an enormous effect on results; 2) *Create Vital Behaviors*: If you set rules in advance, you're more likely to change your behavior when a crucial moment hits; 3) *Engage all six sources of influence*: harness the six influence strategies that determine how people behave; and 4) *Turn bad days into good data* so that you learn from your failures and adjust. With these strategies, you can create robust change. **LE**

Al Gore: The New Global Deal

The late comedian Minnie Pearl told of a farmer who was involved in a car accident. When the farmer went to court to sue for damages, the lawyer asked him whether it was true he said he felt fine right after the accident. The farmer began to tell a long story of the events, culminating with the other car hitting him and his cow. When police arrived on the scene, they saw the injured cow and mercifully shot him. "So when the police asked the farmer how he felt, he said, "I feel fine."

Many of us are likewise *feeling fine*.

The climate *crisis* is the biggest challenge to sustainable capitalism and our way of life. But the word *crisis*, in Chinese or Japanese, has two characters: *danger* and *opportunity*. The climate crisis is one of the most dangerous, but it also shows the biggest opportunity. The global economy is still dependent on an oil market dominated by the Persian Gulf, and the thought of it *being disrupted* or *under control of those who could use it as a geopolitical weapon* is disturbing.

Abandoning the 100-year-old polluting technologies of the past to prepare for a sustainable 21st century could break our dependence, put people to work, and save the economy; but collectively we suffer from inertia—the enemy of change. I attribute the inertia in part to our inability to imagine something that's unprecedented. We tend to think *if it didn't happen in the past, it's not likely to happen in the future*.

I see major contributors to the climate crisis: global population explosion, which taxes resources; the dramatic expansion of power-draining technologies; and the way we think about capitalism. The population has quadrupled; in my lifetime, 62 years, we've gone from 2 to 6.8 billion. I'll see it go to *nine billion*. I attribute the increase in population to the education of girls, empowerment of women, fertility management, and higher infant survival rates.

Capitalism is *the most efficient form of organizing economic activity*. It unlocks human potential. It has a set of organic, ubiquitous incentives. However, we are overdue in addressing capitalism's structural problems, specifically the short-term thinking that recently brought down the financial system. That same lack of vision prevents long-range environmental planning. **LE**

A.G.Lafley: Customer Centric Growth

Leadership is about making difficult choices. When I had to sacrifice two beloved and profitable brands—Noxzema and Clearasil—I equated it to letting go of my children. But if products are not part of a company's growth strategy and can't capture a market-leading position, human and operational resources have to be focused elsewhere. Companies can better turn their attention to innovation when not maintaining products on life support. P&G acquired the 1,500-product Max Factor color cosmetics line in the 1990s. The P&G team ranked them by sales, profit and margin, discontinued the poorest performers and developed *new offerings that were ultimately much more profitable and successful*.

Innovation has to be the centerpiece for a business to thrive for two centuries, as P&G has. In the last decade, the business grew organically six percent on brand and product innovation alone. Such innovation has two intentions: to create even more value for our current users and to bring in new users. We served two billion of the nearly seven billion people in the world. We then doubled the number of customers to four billion in less than a decade. We want to serve another billion in the next five years.

P&G's longevity hinges on its ability to *anticipate market changes* while *learning from the missteps of the past*. I evaluate new inventions that could threaten brands, and even categories. I also evaluate new inventions P&G could partner with to improve our products for more customers. New inventions can be both threats and opportunities. My two big *do-overs* show how instinct plays a role in CEO leadership.

First, P&G was ready to swap one of its unreleased pharmaceutical drugs for Claritin, when at the last minute the head of P&G Health Care advised me not to do it. Every bone in my body said we should go ahead, but I deferred to experience and expertise. In hindsight, I should not have. Claritin is the second largest over-the-counter drug introduced over the last decade. (P&G's Prilosec is the largest.)

Second, after a great acquisition with Gillette, P&G had an opportunity for another large deal, but couldn't make it happen. There were three owners. I had the deal done with the majority owner, but couldn't get it done with either of the minority owners.

During economic instability, companies are more likely to play it safe rather than invest in risky innovation, yet P&G's longevity is a perfect example of *weathering every external condition and thriving*. For those without authority or executive sponsorship to initiate or champion *customer-centric innovation*, I say, just do it. Nobody told me to watch people and learn why people do what they do—I just decided to *just do it*. Get your customers involved in co-designing and co-creating new products and services and *ask for forgiveness later*. Charge ahead and find someone to let you run your own experiment. **LE**

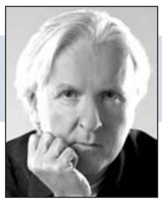
Renee Mauborgne: Blue Ocean Strategy

When so many leaders are making the case for creativity, I question where management should spend its time—on enhancing productivity or on enhancing creativity? On the one hand, the importance of optimizing asset utilization, costs, quality, cycle time and logistics is critical to today's enterprise. But growth, new business development, innovation and future strategy are crucial as well. In fact, the more senior the position, the more important the role as steward of the future. The higher up you go—the more money you make—the more your role as leader is *building the future of your company*. And, the role of creativity is crucial not just for companies to build their future but for solutions to the world's macroeconomic challenges—like energy, water, and pollution—where big trends demand creative solutions by businesses to be met.

So, how will we close the gap between *the aspirations of people* and *our ability to support them without creative shifts*? Simply making incremental improvements and enhancing productivity won't allow us to multiply the resources that we have to make it sustainable for all of us. The creativity of our strategic thinking will enable us to overcome and shape these strained structural conditions. That is the essence of *blue ocean strategy*.

Is the blue ocean strategy right for you? If you are like most companies, you are stuck in a *red ocean*, facing heightened competition, dwindling profit margins, and commodity-type competition. How will you respond? Efficiency alone—productivity gains—will not get you out red oceans. *Only the creativity of your strategic thinking will enable you to shape and overcome these unfavorable conditions.* So strategy needs to go beyond just reaching the *industry best practice threshold* by improving productivity. Blue ocean strategy pushes the creativity frontier of new demand and shapes existing unfavorable structural conditions into new frontiers, where markets are created and demand is strong.

Blue ocean strategy is the bridge that links *creative ideas to commercial success*. It addresses both effective strategy formulation and execution. To get started, you need to overcome the four hurdles: 1) *the cognitive hurdle*: Counter the response "we don't need to change" by using harsh operational and market realities to render the status quo indefensible; 2) *limited resources*: Redirect resources from cold spots—areas of highest consumption of resources that add no value—to hot spots, areas that have the greatest impact on performance in your blue ocean strategy; 3) *motivational hurdle*: Identify the kingpins, the key influencers, and bring them into the strategy process, engage them with fair process—engagement, explanation, and expectation clarity—and leverage their influence and respect to motivate others to effectuate the blue ocean strategic shift; and 4) *the political hurdle*: Recruit a consigliore; find out who is likely to fight a new strategy and who supports it; create a coalition of angels; and circle the devils so their power is squelched. **LE**



James Cameron: Innovation and Passion

Can someone who pushed teams to great achievements through a demanding leadership style reform and get the same high-quality results? I had to adapt my leadership style from *dictatorial* to one that was *more respectful and empowering*. I wasn't always a good leader when I worked with people to get the best out of them. These skills aren't innate for me, and I had to be open to learning. Now, when conflict arises, my inclination is to solve the problem, rather than make a recriminating moment out of it. I turn it back on myself. Did I hire the right person? Yes. Then maybe I didn't communicate it well or they didn't understand. This new leadership style lent Avatar a sense of fun, authorship and ownership in an environment where people felt like they had permission to make mistakes but were now less likely to do so.

Putting the right cast, technical and creative teams together is critical. Blending the people I know I can count on with new recruits who can push and challenge me has become my first step. *Avatar* operated more like a family than a conventional business team, binding the team together for 4.5 years—longer than most film productions. Managing the stress, keeping up morale and maintaining the enthusiasm over this extended length of time was difficult, particularly when people worked all hours and had crises of faith that they couldn't overcome the obstacles ahead.

Execution of a creative vision. Added to the mix was a game-changing vision that was nearly unexplainable, and thus harder to get people on board. *Innovation drove the movie*. My intent from the start was to change the digital creation of characters. The risks of *doing something new* with *Avatar* were not as great as *not doing something new that would excite audiences*. I wanted to push my team to develop the movie technology wave of the future. One revolutionary innovation—the enhanced 3D technology—wasn't enough, and creating 10-foot-tall people was an even harder invention.

Perseverance and patience pay off. The investment in people, technology, and capital resources plus energy and time mounted in the high-risk environment. From concept to screen took 15 years, although there was a decade when the project was untouched. I was 3 1/2 years into the project before seeing the first shot. I don't think you ever know if something is going to be a hit. It's hard to know. I knew we were doing something unique. There are risks involved in trying new things, but *the biggest risk is not to be bold*. You have to break away from the pack. Audiences are jaded. It must be the *must see* film. The reward is all the sweeter because of my propensity to set goals ridiculously high and fail at a level higher than everyone else. **LE**

Other speakers offered insights:

Steve Levitt, author of *Freakonomics*: "Create *a culture of experimentation* (to understand root causes and influences)."

Joseph Stiglitz, former chief economist at the World Bank: "With the end of the stimulus, the economy is getting weaker; *something else* needs to be done."

Vijay Govindarajan, author of *Ten Rules for Strategic Innovators*: "To build an effective strategy, you must excel at *managing the present*, *selectively forgetting the past*, and *creating the future*."

Nando Parrado, author of *Miracle in the Andes*: "Sometimes you don't know what you'll do or say until you have to do or say something."

Bill McDermott, co-CEO of SAP: "To make big things happen, start with the *vision and strategy* and focus on *results*."

Charlene Li, coauthor of *Groundswell*: "Encourage people to take risks, create *internal sandboxes* where they can learn, grow, and think about strategy."

Martin Lindstrom, author of *Buyology*: "The challenge for marketers is to connect with an emotional marker in the brain of the consumer and make an emotional connection to your brand."

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