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THE GOOD OLE DAYS

Stimulus ending. Unemployment lingering.
Deficits growing. Interest rates rising.
Taxes increasing. Corporate growth unclear.

Welcome to the new normal. In the West, that is.

Recently, my son and I were pulling into our driveway when he asked, “Dad, do you remember the good ole days?” I was amazed at his question. Why did he ask me that? My mind immediately raced to my own father years ago talking to his World War II-era sisters about “the good ole days.” Was that what my son meant?

Historically, the good ole days mean, at least in part, the long progression of Western nations from their rural agrarian roots to manufacturing powerhouses and then into the technological era. For corporations, the good ole days meant steady and sustained growth as their factories and plants satisfied the needs of the world. The good ole days seem to have ended before Wall Street’s financial wizards took home an Oscar for the runaway box office hit “The Great Credit Debacle.”

Today, the white-knuckle free fall is over, but the economic revival is tentative, and the engines of growth are not as apparent as they were in the good ole days. Some business leaders and strategists will look to the East while others will push to innovate, and still others will merge and acquire to grow and expand market share.

Almost every CEO and business leader thinks incessantly about growth, and this will be especially true over the next 12 to 24 months. They will do this because the sky is still partly cloudy and during times like these, companies have a bias toward liquidity.

But, as great as the growth challenge is today, the leadership challenge over the next two years will be even greater, and leaders will have to provide certainty to employees in an uncertain economic climate. They will have to do this because the great credit debacle has taken its toll not only on the City of London and Wall Street, but also on Main Street companies and, most importantly, their employees. Most of these employees probably know someone who is out of work, has been furloughed, has had his or her benefits slashed, or is working less than full time. Grateful to have jobs, they are probably working harder for less pay. Keeping a work force moving forward will be an enormous challenge in the weeks and months ahead.

Leaders, therefore, must find a way to move people ahead with hope, courage and a vision of what is possible. Maybe now, more than ever, an organization needs to be anchored with a common purpose. As Eli Broad, founder of two Fortune 500 companies, number 42 on Forbes’s list of billionaires and, most interestingly, a global champion of philanthropy, recently told me, “The CEO must define the mission, whether it’s a business, nonprofit or government.” And, CEOs have to do so in a way that makes employees believe the goal is achievable. “Part of the job of a leader is to convince them it’s achievable, to get people to do more than they thought they could do,” Broad said. No matter how troubling or murky the times may be, leaders must rise above it all and inspire.

Yet vision alone will not do the job. Companies will need to innovate. How does that happen? In this quarter’s issue of The Korn/Ferry Institute’s Briefings on Talent & Leadership, you will find an interview with Linda A. Hill, a professor at Harvard Business School and faculty chair of its Leadership Initiative, who
explores how great leaders do not necessarily set the direction but rather create the context for innovation. In “How to Shepherd Your Geniuses,” Hill refers to Nelson Mandela, who was certainly a social innovator of the highest order. According to Mandela, his tribe used to say that “a leader is like a shepherd. He stays behind the flock, letting the most nimble go out ahead, whereupon the others follow, not realizing that all along they are being directed from behind.”

In this issue of Briefings, we also interview the innovator Olli-Pekka Kallasvuo, Nokia’s chief executive. A rare combination of passionate leader and humble man, Kallasvuo has been instrumental in Nokia’s transformation from an industrial company to a global high-tech leader.

Authentic leadership complements innovative leadership. Authenticity can come into play, for example, when a leader responds to a disaster. In “Crisis Management, Post Toyota,” Victoria Griffith discusses Toyota as a case study in how executives should not respond to a crisis. And, she explodes myths, such as “The best advice in a crisis comes from the legal department.” In today’s world, it is not easy to keep a secret, so it is best not to try, she argues.

Science is also a factor in leadership and management styles. Dan Ariely, a cognitive scientist with labs at the Massachusetts Institute of Technology and Duke University, is profiled in “Predictably Irrational.” When he was 18 years old, an explosion left him severely burned over 70 percent of his body. That was followed by an agonizing three-year hospital stay and countless surgeries. This experience changed his life, and it caused him to wonder why people do what they do. His path of inquiry led him to use cognitive science to study economics and human behavior. Ariely recounts that he once secretly placed several six-packs of Coca-Cola in refrigerators in the communal areas of an MIT dormitory as part of an experiment and that all of the Coke was gone within 72 hours. Then, when he placed plates with six one-dollar bills on each of them in the same refrigerators, not a single dollar was taken. Ariely concluded that people are comfortable cheating or stealing if what they are stealing is one step removed from cash. Perhaps the great credit debacle has less to do with executive compensation plans and more to do with human behavior.

Finally, “How Michael Mondavi Took Charge” profiles R. Michael Mondavi, son of the noted California wine pioneer, Robert Mondavi. After being forced out of the family wine business, Michael did not cry over sour grapes. He recalls being told, “No, Michael, it’s not a tragedy. A tragedy was when Napoleon tried to conquer Italy; World War I, World War II. This is not a tragedy; this is just a difficult time.” So Michael took a difficult time in his life and turned it into an opportunity by creating a new global firm with an innovative business model and an Italian winery as his partner.

I hope you enjoy this issue of Briefings and find it food for thought. Our aim is not just to make you think, but also to help you decide what to think about. Although growth may not be readily apparent at the beginning of this decade, change will envelop us and innovation will free us. When my grandson asks about the good ole days, I will tell him of a time when leadership mattered, which it does, now more than ever.

— Gary Burnison, chief executive, Korn/Ferry International
LAUNCH PARTY

On March 10, 2010, Korn/Ferry celebrated the launch of *Briefings* and the release of our Editor-in-Chief’s 25th book entitled “Common Purpose” at Michael’s Restaurant in New York City. Over 120 notable guests enjoyed an evening of good conversation and spirited and insightful comments on leadership.

Left to right: Michael Distefano, Chief Marketing Officer, Korn/Ferry International; Joel Kurtzman, Editor-in-Chief, Briefings; Laurance Allen, Publisher, Briefings
1. Joel Kurtzman, Editor-in-Chief, Briefings; Joseph Rice III, Chairman, Clayton Dubilier & Rice
2. Patricia O’Connell, Management Editor, Bloomberg BusinessWeek
3. Aron Duta, Office of the Chairman, Cisco Systems
4. Bob Damon, President North America; Caren Flet, Senior Client Partner, Korn/Ferry International
5. Richard Dresdale, (center) co-founder, Fenway Partners
6. Judith Roland, President, Roland Communications; Rocco Maggiotto, Senior Executive Advisor, Zurich Financial
7. Elizabeth Tuggle, (center) Reporter, Fox Business News
8. Georgette Mosbacher, President and CEO, Borghese; Nels Olson, Managing Director, Korn/Ferry International
9. Charles King, Managing Director, Head of the Americas, Korn/Ferry International; Dave Anderson, Sr. Vice President & CFO, Honeywell Inc.
10. Andrea Soniani, Director of Brand Marketing & Events, Maserati; Leila Zogby, Journalist
12. Joe Griesedieck, Vice Chairman, Korn/Ferry International
For years, studies and practitioners have generally concluded that specific, challenging goals motivate employees, focus their efforts and provide clear, objective means for evaluating their performance. However, in their 2009 paper, “Goals Gone Wild: The Systematic Side Effects of Over-Prescribing Goal Setting,” four noted professors of management question that view. They present an impressive review of research and a wealth of examples to argue that while goal setting can improve performance, it can also degrade it by overly narrowing focus, weakening interpersonal relationships, corroding organizational culture and increasing risky and unethical behavior.

“For decades, goal setting has been promoted as a halcyon pill,” write Lisa D. Ordóñez, a professor at the Eller College of Management of the University of Arizona; Maurice E. Schweitzer, associate professor of operations and information management at the Wharton School of the University of Pennsylvania; Adam D. Galinsky, professor of ethics and decision in management at the Kellogg School of Management at Northwestern University; and Max H. Bazerman, professor of business administration at Harvard Business School. “We contend, however, that it has been over-prescribed and it has powerful and predictable side effects.”

As with any powerful drug, the help it provides depends on the dosage.

When Goals Are Too Specific

Specific goals can be so narrowly focused that they blind people to other factors and concerns that may be equally or more important, the authors say. Precisely defined goals discourage people from looking at a problem from a variety of perspectives and foster a mind-set in which merely hitting one’s marks is good enough.

The authors cite many examples of this, including Ford Motor Company’s attempt in the late 1960’s to compete in the small, fuel-efficient car market. In response to the challenging goals of bringing a fuel-efficient, modestly priced car to market quickly, the Ford Pinto was developed, but at the expense of other important considerations that were not specified as goals, such as safety, ethical behavior and company reputation. In fact, a faulty design in the placement of the fuel tank and omitted safety checks resulted in Pintos igniting on impact and a multitude of lawsuits. Even after discovering the hazards, executives did not correct the design, calculating that doing so would have cost more than the lawsuits that were likely to be filed.

Goal setting can also inhibit characteris-
tics in employees that are essential in today’s organizations — a willingness to learn and adaptability. Because the act of setting specific goals assumes that optimal outcomes are known beforehand, it discourages openness to alternative outcomes, exploration and growth. The resulting inflexibility can sabotage collaboration, an essential aspect of organizational behavior.

**When Goals Are Too Challenging**

“Goals Gone Wild” cites studies showing that people given highly challenging goals are more likely to adopt inappropriately risky strategies to try to achieve them than if the goals are more modest. There is also substantial evidence that goal setting of any kind can induce unethical behavior, such as that displayed by Sears Brands mechanics who recommended unneeded repairs in an effort to meet their quotas and by Bausch & Lomb sales representatives who “met” their targets by reporting sales that never took place.

The authors write that a healthy organizational culture is probably the best insurance against these kinds of harmful effects, but they point out that the use of goals can damage an organization’s culture. On balance, they say, “the use of goal setting creates a focus on ends rather than means, and aggressive goal setting within an organization will foster a climate ripe for unethical behavior.”

Another problem arising from the use of so-called “stretch” goals is the possibility that the goals may not be reached. This can cause people to unduly question their abilities.

**The Judicious Use of Goals**

How, then, do the authors suggest goal setting should be used? They say that a crucial first step for managers is to think carefully about whether specific goals are necessary. Most managers “think that others need to be motivated by specific, challenging goals far more often than they actually do,” the authors say. They cite studies showing that although goal setting does increase extrinsic motivation, it can undercut intrinsic motivation — engaging in a task for its own sake — so that the net effect is usually negative.

Consequently, the authors recommend that if goal setting is to be used, the goals should be as comprehensive as possible and take into account all the critical components of an organization’s success, both quantitative and qualitative. It is also critical that short-term goals do not conflict with desirable long-term outcomes and that acceptable levels of risk and ethical guidelines are clearly and explicitly articulated. To reinforce collaboration and cooperation, team goals should replace individual goals when practical.

Perhaps most importantly, the authors say that in complex, changing environments — that is to say, all organizations — what they call “learning goals” are likely to be more effective than performance goals. That means, essentially, that goal setting should be less about achieving specific outcomes and more about optimizing the enterprise.
YOU GET WHAT YOU PAY FOR

And when it comes to executive performance, how you pay for it makes a big difference.

In a recent New Yorker article titled “The Sure Thing,” Malcolm Gladwell makes the case that successful entrepreneurs are not the high-wire acts that they are mythologized to be. Rather, they are highly risk-averse individuals who happen to be blessed with the instinct to spot opportunities others miss. In fact, seeking excessive risk doesn’t necessarily correlate with success at all.

Gladwell recalls a famous experiment in the 1950’s in which the Harvard psychologist David McClelland observed a group of children playing a game that involved throwing a hoop over a pole. The children who took the greatest risk — standing so far from the pole that success was unlikely — also scored lowest in testing that measured their desire to succeed. McClelland concluded that those children were actually pursuing a psychologically protective strategy: the greater the risk, the less they could be blamed for failure.

“That’s what companies are buying with their bloated CEO stock-option packages,” Gladwell writes, “gambles so wild that the gambler can lose without jeopardizing his standing in the corporate world.” That’s hard to refute. The past few years have made painfully clear what can happen when compensation for a chief executive is structured to encourage inordinate risk and short-term gains and offers no penalties for failure and, in fact, often rewards it. This has spawned a good deal of debate about whether executives are paid too much and for the wrong things.

To the latter point, the Harvard Law School professors Lucian Bebchuk and Jesse Fried sounded an early warning in their 2004 book, Pay without Performance: The Unfulfilled Promise of Executive Compensation, asserting that standard executive pay arrangements were leading executives to focus excessively and detrimentally on the short term. Since then, the authors have produced a steady stream of incisive work on the subject, including a recent (December 2009) paper, “Paying for Long-Term Performance,” that offers clear guidelines for a better approach to equity-based compensation.

Bebchuk and Fried assert that a typical stock option plan imposes two types of costs on shareholders. First, when executives are free to unload a specified number of options that vest each year, the corporation must give them fresh equity to replenish their holdings. This dilutes the ownership of the public shareholders. Second, executives may take actions, both legal and illegal, that increase the stock price and their payout in the short run, even if those actions would destroy company value in the long run. The remedy? Executives should be blocked from cashing out their equity at the time of vesting.

Although some firms do postpone executives’ cash-outs until their retirement dates, that approach has its own shortcomings; it could perversely induce the most successful executives to retire prematurely, and it still does nothing to discourage short-term thinking in the years preceding retirement. The solution that Bebchuk and Fried propose is to allow the unloading of equity only after a specified period of time has elapsed from the...
vesting date of each equity grant. Since both the equity grants and their cash-out dates would be spread out over time and extend past retirement, an executive’s decision to retire would not be affected by the prospect of being able to unwind large amounts of equity, and he would still have incentive to think about long-term considerations even as retirement approaches. The authors further argue that such holding requirements are not enough. Citing a study indicating that in 1996 to 2006, more than 1,000 corporate insiders hedged at least 30 percent of their stock positions, they recommend that firms hold the blocked stock in an escrow account and, before releasing it, require the executive to sign an affidavit indicating that he did not engage in any hedging transactions.

Executives can also use various types of tactics to increase the value of their options at public shareholders’ expense. “A number of studies,” Bebchuk and Fried write, “find companies are more likely to release bad news and less likely to release good news just before options are granted.

To eliminate the incentive for such manipulation, the authors suggest that all equity payouts be based upon the average price of the stock calculated over a sufficiently long period. Executives could be required to announce their intentions to unwind equity in advance, giving any inside information on which the executive may be trading more time to emerge and become incorporated into the stock price and also intensifying scrutiny upon the firm and its managers during the period. Of course, the most effective of all deterrents to manipulation would be the use of “hands off” arrangements under which all restricted stock and stock options are automatically sold according to a fixed, gradual and preannounced schedule.

A number of other recent studies have offered compensation models similar to Bebchuk and Fried’s, but with different wrinkles. For example, in a rigorous August 2009 paper, Alex Edmans of Wharton, Xavier Gabaix and Tomasz Sadzik of New York University, and Yuliy Sannikov of Princeton propose the use of “dynamic incentive accounts.” With their approach, an executive’s pay is escrowed into an account, a fraction of which is invested in the firm’s stock and the remainder in cash. Like the Bebchuk and Fried model, this account vests gradually both during and after employment. In addition, the portfolio is continually rebalanced to reflect a firm’s changing value over time. The rebalancing and vesting are separate events, designed to reduce the executive’s risk while at the same time discouraging manipulation.

Inevitably, the many systemic failures of recent years and the specter of more to come have prompted a number of urgent questions — many of them legitimate — about the need for regulation and reform. But when it comes to executive performance, the question that is attracting the most attention is quintessentially free-market in nature: Are we getting what we pay for?
IN PRAISE OF THE “AVERAGE JOE”

CEOs are more likely than the general population to have one of the 10 most common first names. Among the 972 male CEOs on the 2009 Fortune 1,000 list, 157 are named John, Robert or James. That’s 16%, when it should be 11% (107) based on how common those names were in the late 1940’s to 1960’s, when most current CEOs were born.

Source: USA Today, 2009

IN THE END OF CHIMERICA

Chinese-American codependency has become toxic for the global economy and is undermining recovery from the financial crisis, a historian and an economist argue.

Just as the global economy is tentatively re-establishing its footing in the aftermath of the financial crisis, a fresh wave of controversy threatens the nascent stability. Since his first trip to China in November 2009, President Obama has increasingly expressed concern that the weakness of China’s currency may disrupt the fragile balance of world trade. He has not been alone in his concern — the European Central Bank, the International Monetary Fund and many Western economists have also called for China to revalue the yuan to be more in line with the U.S. dollar and other major global currencies. Most estimates of the yuan’s undervaluation fall between 25 percent and 50 percent, an undervaluation that effectively subsidizes China’s exports and imposes a tax on its imports.

The Chinese government rejects the notion that its exchange rate policy has given it an unfair advantage and suggests that a stronger yuan would be tantamount to a consumption tax on American and other consumers. Although China clearly has growing fears about overheated domestic growth and inflation — it twice tightened credit earlier this year by raising the level of bank reserves it requires — it has not seemed concerned that undervaluation of the yuan could exacerbate bubbles in its economy.

Still, it is widely believed that a stronger yuan would make China’s economy less dependent on exports and put its future growth and the global economy — on more sustainable paths. A recent research paper entitled “The End of Chimerica” goes even further, suggesting that a historically unique financial symbiosis between China and America, a phenomenon the authors call “Chimerica,” has dominated the world economy for the better part of the last decade and now must end. One of the paper’s authors, Niall Ferguson, a professor at Harvard, is also the author of “The Ascent of Money” and the creator and host of the PBS series of the same name. Both the book and the series discuss the origins and implications of the Chimerica relationship. In “The End of Chimerica,” Ferguson and co-author Moritz Schularick, an economics professor at the Free University of Berlin, assert that the relationship, though initially beneficial, has become a dysfunctional one that contributed to and was then made untenable by the financial crisis of 2007-9.

What went wrong? China’s economic rise resulted from its adoption of a strategy, employed by post-World War II Germany and Japan, of export-led growth, the authors say. However, China’s rise was marked by currency intervention and a corresponding accumulation of reserves that, in combination with highly integrated and under-regulated financial markets, produced a debt-fueled asset bubble in the West unlike anything seen in the postwar decades.

When China embraced foreign trade and foreign direct investment during the 1990s as cornerstones of its new development strategy and its exports and GDP multiplied, Chinese authorities consistently bought dollars to prevent their currency from appreciating. These currency interventions served two goals: to promote export-led industrialization and to build a cushion
against future financial crises. The result was a vast accumulation of dollar-denominated securities in government reserves. In 2000, China had currency reserves of $165 billion, slightly above 10 percent of GDP, and by 2009 currency reserves reached $2.3 trillion, representing more than 50 percent.

“With a combination of governmental capital controls, tight regulation of credit and a huge pool of unorganized labor, Beijing was able to operate a consistently undervalued real exchange rate without generating high inflation,” Ferguson and Schularick write. This helped create the macroeconomic backdrop for the recent financial crisis.

Bankrolled by China, the U.S. economy overdosed on debt and indulged in a decade-long orgy of consumption, with households spending more than they earned. From 2000 to 2008, total spending in the United States was 45 percent higher than total income. The authors emphasize that Beijing cannot be blamed for reckless lending and borrowing by Western financial institutions. Yet, they write, “Had it not been for the Chinese willingness to fund America’s consumption and real estate speculation habit, long-term interest rates in the United States would almost certainly have been substantially higher, acting as a circuit breaker for the housing bubble.”

Ferguson and Schularick believe the lesson of German and Japanese history is that export-led growth can work only when major gains in productivity are accompanied by significant exchange rate appreciation.

“The world economy’s key structural imbalance is that the second biggest economy in the world has pegged its currency to that of the largest economy at a strongly undervalued exchange rate,” they say. “That poses two massive threats to the global economy. First, it limits U.S. recovery by overvaluing the dollar in key Asian markets. Second, as the dollar weakens against other developed world currencies — notably the euro and the yen — the burden of adjustment falls disproportionately on Europe and Japan.”

The authors cite three compelling reasons that a major exchange rate revaluation is in the United States’ interest:

If the yuan does not increase in value against the U.S. dollar, the United States’ only option to regain competitiveness against Asia would be deflation, which is out of the question for such a highly leveraged economy.

Exchange rate adjustment would allow the United States to import demand from abroad, lessening its potentially dangerous reliance on its own public policy to stimulate domestic demand.

Revaluation is also in China’s interest, the authors contend. It would decrease the amount of U.S. government debt and dollars in circulation — good news for the biggest holder of U.S. Treasuries — and ensure a healthier balance of trade between China, the United States and Europe. To be sure, with revaluation China would incur significant losses on its dollar reserves, but Ferguson and Schularick argue that is a “modest price to pay for a development model that propelled China from third world status to an economic powerhouse in less than 15 years.” The price would be even more modest if they added in the avoided cost of China possibly losing its newfound stature if it fails to revalue. It remains to be seen whether the Chinese agree with this assessment.
You cannot learn to dance by reading a book or by practicing with a broom, and leadership is like dancing.

There are countless books — probably more than anyone can bear to read — promising to tell you the secrets of leadership. I will save you time and money: there are no secrets, and if anyone had them, he would be a fool to reveal them. There are also courses in leadership that offer sound training in certain skills. But unless you get up and dance, no course or program is going to teach you how to lead. You learn on your own. You learn by doing.

I arrived at this conclusion after 30 years as a university president, first at the University of Hartford and afterward at the George Washington University. Along the way, I frequently served on the boards of nonprofits and corporations.

It is fair to ask, since neither broom nor book works, “How does anyone become a leader?” I could say, “I really do not know.” But that is not sufficient. So I will give several answers which I hope will give you something to think about.

To begin with, there are three innate qualities that are mysterious and impossible to quantify, but real nonetheless. The first quality is an ability to lead. Some people have it, and others clearly do not. How this comes about is probably a question for psychologists and, possibly, philosophers. We might as well ask why some people are born with perfect pitch. It is, again, a mysterious but a real quality.

A general is a leader, but so are captains and sergeants. In fact, you can make a good case for the leadership at every rank being no less important than that at the very top. For example, and sticking with the military imagery, I know someone who was promoted from a middling-to-high academic position to the presidency of a small university. Obviously, the board of trustees thought they were hiring a general — someone with a command of strategy and a good strategy in mind. He could lead at that lower level — but I was not sure that he had the strategic ability and the innate ability to lead. I was right. He lasted less than two years in his new job.

I take no pleasure in his failure or in retelling this story, but I offer it as an illustration of what I mean by innate ability. I also retell it as a caution. It is not easy to look at yourself in the mirror and say, “I’m a colonel.” We all want to believe that our inner general is there just bursting to get out and take on the world. But for many of us, there is no inner general and there never will be. There are people who are made to be world-class vice presidents or deans or foremen. In fact, most people are cut out for being something less than the top leader. It is no small thing to see yourself dispassionately as what you are. In other words, lead at your level of leadership.

The second quality is a companion to innate ability, and that is innate desire. A leader has to want to be a leader, has to want the responsibility as much as the glory, has to enjoy facing the risks and their consequences that arise in any position of leadership and has to be willing to get by on four hours of sleep. The money alone is rarely, if ever, adequate compensation and, I bet, never what motivates the best leaders.

There is more to the mystery of the innate desire. Obviously, a leader has followers. Thus, a leader must want to deal with other people, including a range of stakeholders. A political instinct is slightly different from what are so-called people skills. A leader has to want to transact with others, to get their ideas and share his or her own and to derive some good from meetings and conferences. The French novelist Romain Rolland wrote about “the joy of being many.” Perhaps that is the best characterization of what I am trying to define. A leader needs to find joy simply in being in groups.

The third innate quality is sometimes called charisma. But, that word is overused so I will use “presence,” a theatrical word instead. Presence is hard to define precisely. Like the famous definition of obscenity, we all know it when we see or experience it. Presence is not the dominance of the alpha type. It is not charm, or good looks, although they never hurt. Perhaps it is something in our leaders’ pheromones, something we unconsciously inhale or ingest in the presence of a person whom we want to follow. And, of course, that is the key — no matter what the right word is, we want to follow him or her even if we are not sure why. And, we do follow. Leaders who have this elusive quality may project it from afar, and people who respond to it may barely know the leader they are eager to follow.

I have not brought up these mysterious characteristics to
dismay you. You cannot learn them. But if you have them, there are things you can do to learn to be a good leader.

An education in leadership needs to begin with observation. You have to keep your eyes wide open. And you need to keep them open everywhere. It is natural for us to look at others where we work for models of leadership, but it is limiting to look only there. What you can observe at, say, a homeowners’ association, the PTA or a cycling group can be at least as instructive as what you see at work because, whenever you are in a group, someone is leading, however subtly.

It is also true that the leader may not have an official position or title: he or she seems to guide things without a formal office or authority. This is the quality of presence that I referred to above. Whatever it may be, it is useful to identify people who are leading, at work or elsewhere, and to ask yourself how they do that. You will certainly come up with many different answers, and that should not trouble you. There is no one way to lead. And different environments and circumstances will produce, or even require, different modes of leadership. It is not just that the cycling club is different from the corporation. It is that the people in the two organizations are different, the relationships among them are different and the demands the organizations face are different.

If I am right about this, then there are further implications. The first is that participation is as important as observation. If you do not participate with others, there is no school where you can learn from your observations and about the dynamics of human relations that you need to understand. Practice, as we are all reminded, makes perfect — or at least pretty good. A second implication is that a leader has to be a chameleon, not changing colors to hide, but to quickly adapt to new environments.

It is more important to have mentors than role models because it is from mentors that you learn the essence of your craft, trade or profession. We tend to think of mentors as teachers, and so they can be. I think it is preferable to think of them as guides.

A piece of advice about choosing the perfect mentor: Do not try. There are no perfect mentors because no one is perfect, and no one will ever be a perfect match for anyone else. As a result, you must settle not for what you want but for what you need. You certainly want a mentor whose intellect and temperament complement your own, with whom you feel comfortable and who feels comfortable with you.

But to find these intangible qualities will most likely mean that you will need more than one mentor. If you have too many, however, you risk turning your mentors into consultants.

You can solve this problem by having a couple of mentors at a time, or as I did, by having serial mentors. At different times in my life, I was ready for, and in great need of, different kinds of guidance. Fortunately, I found the right person each time I needed a mentor.

Once we become leaders, whether as sergeants or generals, the learning curve does not flatten out. To the contrary, it gets steeper because the higher we rise, the more there is to know, the more complexities there are and the more daunting is the juggling act we have to perform.

To deal with the learning curve, I developed four rules that helped me over the last 30 years. I do not guarantee they will do you good, but I am sure they will do no harm.

First, I make a point of writing a personal reply to every letter and message I get. This is time-consuming, but it enables me to connect with strangers and acquaintances.

Second, always keep in mind that a good strategy is only as good as the tactics used to implement it. A big new idea is just something written down on paper. To make it work requires the appropriate tactics.

Third, I always appreciate the importance of casual perception — how I appear to others as I walk down the street. If you want collegiality and civility, then you must be collegial and civil. If you want energy and enthusiasm, then you must project energy and enthusiasm yourself.

Fourth, never underestimate the importance of the media. You always need to be camera-ready. That does not mean every hair must be in place and every word rehearsed and polished in advance. It does mean that you need to know, at all times, what is happening in your organization, or your part of it, and explain it clearly.

Not one of these four points is easy, nor is anything else I have been talking about. Neither is leadership. If it were, we probably would not need leaders because everyone would be a leader and, somehow, work harmoniously with everyone else. But the world and our work are not harmonious. That is why we need leaders. And, that is why we especially need leaders practiced in dancing with people rather than brooms. Only in that way do they know how to keep us in time with the music.

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how michael mondavi took charge of the succession
here was drama to spare in the overthrow of the Robert Mondavi Corporation, the iconic California winemaker. Here was a script for a modern production of *King Lear*, albeit with two sons cast among the three children, or for a reality show version of *Falcon Crest*, that 1980’s soap opera set among the golden vineyards of a mythical valley. The real story could serve as a case study in how not to run a family business.
Vittorio Frescobaldi agreed to let Folio import the Marchesi de

The brothers clashed over strategy, and the sister, although not involved in management, sided with the board’s outside directors. The chief executive sought a restructuring that would limit the family’s power, while the winery’s founder and namesake, then approaching 90, grew increasingly distracted as his personal fortune dwindled because of both philanthropy and free-spending ways.

When R. Michael Mondavi, the eldest son of Robert, was pushed out as chairman in a boardroom coup in January 2004, he felt his life had hit bottom. “It was devastating,” he said. “That was as hard a day emotionally as the day my mother passed away — shock, disbelief, anger, sorrow, despair.”

But Michael spent little time licking his wounds. Later that year, when Constellation Brands acquired Robert Mondavi for nearly $1.36 billion, his share was more than $100 million, and even before that payday arrived, he had started planning a new winery and a new kind of wine business. He personally owned some of the finest vineyard property in Napa Valley, and his years at the head of the wine industry’s pre-eminent premium brand had allowed him to forge lasting relationships with a global who’s-who of fine winemaking.

“Thank goodness my wife said, ‘Michael, get up and do something; you’re making me crazy,’ ” Mondavi said. “Fortunately, that whole cycle was pretty quick, a couple of months. A core group of friends said, ‘Take the anger and use it to build something.’ The moment I started focusing on the future, the sadness and grief evaporated.”

His first move was to hop on a plane to Florence to meet

with Vittorio Frescobaldi, patriarch of a family that has been making wine in Tuscany since 1308. Michael was seeking advice, because he intended to make his son, Rob, and his daughter, Dina, joint majority owners of the new business, Folio Fine Wine Partners. He knew well that the Robert Mondavi Winery had come into being only after Robert was pushed out of the Charles Krug Winery by his brother, Peter, and his mother, Rosa. Having just seen history repeat itself once, Michael was determined to avoid another encore performance.

At the time Robert Mondavi was going to be sold, Michael Mondavi approached Frescobaldi. “I spoke to him very confidentially and asked, ‘How is it your family is on its 31st generation and mine can’t get past the second?’ ” he recalled. Frescobaldi told him that the Italian tradition of passing total control to the oldest son had worked for a few hundred years, but that today it was important to train the up-and-coming generation in conflict resolution. “I shared that immediately with Rob and Dina, and said, ‘Guess what, guys, you’re going to have to work hard to work out your differences.’ To me it was so wise and so simple.”

Mondavi and his wife, Isabel, own 10 percent of the business. Rob, 38, president for winegrowing, owns 39 percent, as does Dina, 33, the creative director. The company’s employees own the rest. Robert Mondavi shipped more than 10 million cases in 2004. By contrast, Folio plans to stay below 50,000 cases from its own.

Beyond the fatherly advice, Frescobaldi gave Michael an invaluable prize: he agreed to let Folio import the Marchesi de Frescobaldi wines to the United States, giving the fledgling business an anchor client of immense prestige. Folio had no buildings or even business cards yet, but it was now sole United States importer for 150,000 cases of some of Italy’s finest wine.

Frescobaldi had been marketed by Robert Mondavi, but Constellation closed down Mondavi’s import division.

“That gave Michael the opportunity to establish his own company, knowing that the Frescobaldi group was looking to find a partner,” said Leonardo Frescobaldi, Vittorio’s younger brother and the head of sales and marketing. “They started from nothing, from scratch. Now, in the last three years, Folio has grown in dimension, in organization, and has become a very serious importer. For us, the partnership was very important in our decision, to know that behind Folio was the presence of the family of Michael Mondavi.”

Imports had been one element of Michael Mondavi’s growth strategy when he was chief executive of Robert Mondavi in the 1990’s; at Folio they would jump-start the nascent business, providing an immediate source of cash flow and a degree of clout with distributors while the family nurtured its
own vineyards and developed its own new brands. One legacy of Prohibition is the wine industry’s three-tiered distribution system, in which wineries large and small sell their wares to distributors, who in turn sell to restaurants and retailers. Industry consolidation has turned the surviving distributors into giants, who have little interest in smaller brands.

“There’s a certain scale that’s necessary to make the investment in the distribution channel work, and Folio’s import side is one way to do that,” said Mike Veseth, author of the Wine Economist blog, and the Robert G. Albertson professor of international political economy at the University of Puget Sound. “Obviously, they have the Mondavi name, which would open a lot of doors, and having that import base lets them think creatively about what they can do with the wine.”

With Frescobaldi as a base, Folio was able to assemble a gilt-edged collection of imports from Italy, Spain, Germany, Austria, Argentina and New Zealand. It is a remarkably diverse list, but what the wineries have in common is they are each among the top two or three producers in each region, they are family owned and have long tenures in the wine business.

“We only deal with families, and our preference is that the family has greater history in the wine business than we do.” Mondavi said. “In the past 20 years, so many people have gotten into the wine business as a rebound from their previous career, because they think they’ll like the lifestyle, and it’s chic to have their own winery. If mom and dad started the winery, but the kids aren’t that enthralled, you don’t have stability for the future when it’s time to transfer leadership. But if you’re dealing with 10 generations, there’s a lot more stability, and in most cases these families also have tremendous heritage in the region and own the best vineyards.”

Indeed, despite Mondavi’s devotion to family and legacy, there is more strategy than sentiment in Folio’s selection of imports. “Here’s an example of something very forward thinking,” said Dan Berger, a Sonoma-based industry consultant and author of Vintage Experiences, a weekly e-newsletter. “He’s got Prinz Von Hessen rieslings. Riesling sales are going up, Americans are becoming far more interested in riesling, and it’s important to have one in your portfolio. Does that mean the wine will make you huge profits now? No. But in two or three years, it will be really intelligent.”

At the same time that Michael was assembling a dream list of imports, he and Rob began building a portfolio of their own brands. Here too, they emphasized diversity from the start, knowing that retailers and restaurateurs can deal with only so many vendors, but need wines with different flavor profiles and different price points. Folio’s Oberon emphasizes classic Napa Valley cabernet sauvignon, merlot and sauvignon blanc in the style the family pioneered; Hangtime features wines from long-ripening grapes sourced from France to New Zealand; while I’M, named for Michael’s wife, Isabel, emphasizes Sonoma chardonnay, Oregon pinot noir and rosé.

All of these wines retail for $15 a bottle and higher, and the family has no intention of chasing the lower end of the market, which is dominated by big consumer products companies and multinationals. They tried that at Robert Mondavi and the proliferation of poorly differentiated budget-priced wines only diluted the flagship Napa Valley brand. Freed of Wall Street’s demand for constant quarterly growth, they say they can now concentrate on wines they would want to drink themselves.

“When we started Folio, we decided we would be specific to our roots in the vineyards,” said Rob, who had worked at Robert Mondavi as sales director, in addition to starting his own companies importing cigars and leading mountain bike tours. “We want to create lovely wines, primarily Napa Valley wines, that when somebody takes a sip they get what they paid for. We want that ‘wow!’ factor.”

Part of Folio’s strategy is to offer value, even at the very highest range of its product offerings. In a tasting at the World Series of Wine in Cleveland in November, Folio’s limited production cabernets — M by Michael Mondavi, and Emblem — beat out some of the most prestigious first growth Bordeaux.
The Korn/Ferry Institute

The final results of the blind tasting were:
- 1st place: 2005 M by Michael Mondavi, Napa Valley ($200 suggested retail price)
- 2nd place: 2006 Château Lafite-Rothschild Pauillac ($500 average retail price)
- 3rd place: 2006 Emblem cabernet sauvignon, Rutherford ($49 suggested)
- 4th place: 2006 Emblem cabernet sauvignon, Oso Vineyard ($49 suggested)
- 5th place: 2006 Château Margaux ($500 average)

Value was always part of his strategy, even at the high end, Michael Mondavi says. “It’s about exceeding expectations,” he said. “If we only delivered a $50 wine for $50, it’s ho-hum. We want to deliver double the quality for the price.”

Left unsaid is the pride he takes in knowing these are his own wines, which he produced hands-on with Folio’s chief winemaker, Tony Coltrin. It is a little-known fact, even within the wine industry, that Michael was the winemaker for the Robert Mondavi Winery from 1966 to 1974, the vintages that put his father’s business on the map.

While these prize-winning wines are made in very small quantities — 700 cases for the first vintage of M, about 1,500 for the two wines from Emblem — they provide a halo effect for all of Folio’s wines, much as the Reserve cabernet and Opus One, a joint venture with Baron Philippe de Rothschild, did for the Robert Mondavi Winery.

M by Michael Mondavi and Emblem will also serve as Folio’s first ambassadors to Europe and Asia. Selling California wines abroad has always been challenging, partly because many wine-drinking cultures are very attuned to their local wines, and many countries apply tariffs to wine imports. But Lenz Moser, himself a fifth-generation winemaker in Austria, and the former sales manager for Robert Mondavi in Europe, says Folio’s top wines will be well received.

“There will be a very good reception because of Michael’s background,” Moser said. “Michael is the last living wine pop star. He is very well known here because in his Robert Mondavi years he made a personal effort in Europe and was here every couple of months. M is certainly not cheap, but it’s been extremely well received by the likes of Jancis Robinson,” the wine writer for The Financial Times in Britain. His first allocation has already sold out, he notes.

Moser says he can empathize with Michael Mondavi, having personally lost control of the family business that bears his name. He is now starting over with his own brand, Laurenz V, which Folio imports to the United States. “Michael now is the most relaxed Michael I’ve ever seen,” he said. “He does great things, and the pressure of Wall Street is off his back.”

The Robert Mondavi Corporation went public in June 1993, in an offering managed by Goldman Sachs. While proceeds from the offering were used to pay off some of its $65 million bank debt, finance expansion, and add to working capital, a major motivation for the family was to manage the inheritance tax burden they knew would come when Robert died. Like a number of family businesses, the Mondavis created a two-tiered stock structure meant to ensure that they would always remain in control, but problems arose almost immediately and were worsened by internecine fights.

“I went into a board meeting in November 2003 and said our focus is on consumers, growers, employees, quality and shareholders. A director said, ‘Michael, you’re obsolete. Your only focus should be the shareholders. If you can’t do that, we can find someone who can.’ Eight weeks later, I was retired.”

We only deal with families, and our preference is that the family has greater history

Clockwise from left: daughter Dina, son Robert, Michael Mondavi, wife Isabel.
Industry analysts say there is a fundamental mismatch between wineries and the public equity markets. Fund managers seek a rapid return on investment and earnings per share that go up every quarter. Wineries have to invest millions of dollars in hard assets like vineyards that will not produce returns for many years, or French oak barrels, which must be fastidiously maintained and regularly replenished. Wine is also essentially an agricultural product, subject to the unpredictable whims of the weather, which can ruin a promising vintage with one rainy week.

“The Wall Street quarterly statement tends to look the same no matter what business you’re in,” said Berger, the winery consultant. “The bankers have no clue that a quarterly statement doesn’t make as much sense to a winery as to a ketchup maker. Strictly speaking, a quarterly report for a winery should be a quarter of a century. I never recommend that wineries go public.”

One element of Folio’s business plan that would never have passed muster with Wall Street is the family’s decision to share their Napa facility with other winemakers. In stark contrast to the Robert Mondavi Winery’s landmark headquarters in Oakville, or Opus One’s architectural statement on the St. Helena Highway, the Folio Wine Studio occupies a nondescript set of buildings on a back road. But the bland facade hides a state-of-the-art winery equipped with a laboratory and the kind of equipment most winemakers only dream about.

Inspired by the Carlton Winemakers Studio, a cooperative based in Carlton, Ore., Folio makes this equipment available to some of the smallest producers in California. Unlike the practice in a custom crush, by which larger wineries make wines for other owners’ labels, the Folio Studio works only with hands-on winemakers, who produce their own wines on site.

“If they’re not passionate, we don’t want to work with them,” Michael Mondavi said. “The idea exchange is wonderful. We want them here seven days a week during the harvest.”

It’s a new model for a new era in winemaking. In the 1960’s and 70’s, many small wineries were built with nothing more than family funds and sweat equity. But today the capital costs are beyond even most wealthy individuals’ means, and the distribution hurdles keep many a fine wine from reaching the market. By letting small winemakers piggyback on their infrastructure, and by including their products in the portfolio of brands it presents to distributors, Folio removes both obstacles.

“We couldn’t afford the bones of a winery some place like Napa Valley,” said Karen Culler, who produces her Culler Wines at Folio. “You’re seeing a lot of good wines coming out that you wouldn’t have otherwise. These custom facilities have enabled a lot of people like myself to make wine where we couldn’t before.” Culler’s 2007 Napa Valley Syrah, produced at Folio, is available online for $25, but hurry, she made only 76 cases.

Not every relationship has worked out according to plan. Folio originally intended to make pinot noir from Oregon grapes, and still includes one among its I’M offerings, but pulled out of the state after their local winemaker decided to pursue other interests.

“I was looking forward to this 25-year relationship that is Michael’s time horizon, but they never really had any stake in Oregon,” said Tim Ramey, an investment banker whose Zenith Vineyard grows pinot noir near Salem, Ore. “They didn’t own any property, they bought grapes and hired people to make the wine.” Nevertheless, he considers the Folio model a good one. “It’s less edifice- and land-based and more distribution- and brand-based. That’s Michael’s path, not to stake his reputation on an ultrapremium edifice winery, but on a portfolio of premium wines that he either makes or distributes.”

The past two years have been tough on the premium wine business, with the Great Recession taking a predictable toll. California wine shipments fell for the first time in 16 years, and United States sales of wines priced at $25 and above dropped 30 percent nationwide in 2009, according to Nielsen, the research company. In such a market, Folio did well to keep sales essentially flat, Mondavi says.

“We had to run like mad to stay in the same place,” he said. “Consumers have drunk about 20 percent more than has been sold, because when the economy went south, they consumed what they had at home rather than go shopping. Retailers and restaurateurs did the same thing.”

But again, Vittorio Frescobaldi gave him a useful perspective, Michael says. “I went to visit Vittorio about a month after Lehman Brothers collapsed to let him know it was going to be very difficult to meet their pretty aggressive growth figures. I said, ‘This is a tragedy for the world.’ He said: ‘No Michael, it’s not a tragedy. A tragedy was when Napoleon tried to conquer Italy; World War I, World War II. This is not a tragedy; this is just a difficult time.’

That kind of long-term perspective is what the wine industry needs, Mondavi says, and for the long term, he likes Folio’s prospects.

“I think there’s a greater opportunity today than there was 25 years ago,” he said. “Twenty-five, 40 years ago, the percentage of the population that was interested in wine was tiny. Today, the millennial generation is the first whose preference between beer and wine is wine. They seek out smaller purveyors. We’re trying to make sure that we can communicate that this wine came from these grapes, from this vineyard, from these hands.”

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CRISIS MANAGEMENT, POST TOYOTA

By Victoria Griffith

In August of 2009, an off-duty California Highway Patrol officer, Mark Saylor, was on a family outing to a college soccer game when he lost control of a Lexus ES, on loan from a Toyota dealer. A passenger in the car called 911 and reported the accelerator was stuck. The ensuing crash killed Saylor and three others.

Toyota issued a press release two and a half weeks later, but there was little in it to indicate that the tragedy was more than a sad but isolated incident, perhaps attributable to a dealer’s installing the wrong size floor mat in the Lexus. The company urged its dealers and “all other automakers, dealers, vehicle owners and the independent service and carwash industries to assure” that any floor mat “is correct for the vehicle.” Media interviews were delegated to United States-based managers, while Toyota’s Japanese executives stayed in the background.

Five months later, Toyota’s chief executive, Akio Toyoda, was forced to appear before a United States Congressional committee to address widespread vehicle failures. In emotional testimony, he apologized for the company’s mistakes. It was a stark reminder of how a single, seemingly insignificant incident can escalate into a full-blown corporate crisis. The Japanese car company’s woes have fueled a sense of impending calamity for corporate managers already thrown off guard by the global banking crisis and a string of natural disasters like the earthquakes in Haiti and Chile.
We regret the incident and would like to offer our sincerest apology...
There is a sense that crises are becoming more common. The data are sketchy on this point, but one thing is certain: In today's highly wired society, a corporation's missteps are more likely than ever to become public. And the bad publicity surrounding those mistakes can itself have disastrous consequences. “It’s hard to keep a secret these days,” said Ian Mitroff, president and founder of the California-based consulting group Mitroff Crisis Management. “It’s best not to try.”

Globalization raises financial stakes and can make coping with disaster more of a challenge. When senior management is geographically removed from the epicenter of a corporate shock, it may be difficult to fully comprehend its implications. And if the problem is not tackled quickly and forcefully, even a minor problem can easily spin out of control. The British research firm Oxford Metrica estimates that, these days, executives have an 82 percent chance of facing a corporate disaster within any given five-year period. That’s up from a 20 percent chance two decades ago.

How should corporations prepare? One line of thinking is that there’s little that any business can do to get ready for a crisis ahead of time, because the very nature of a crisis lies in its unpredictability. “The only way to prepare is to make sure you have a leader who can deal with it,” said Eric Dezenhall, a crisis management expert who is said to have advised the domesticity guru Martha Stewart, the entertainer Michael Jackson and the Enron executive Jeffrey Skilling.

Dov Frohman, who was general manager of Intel’s Israeli plant during the Persian Gulf war of 1991, warns that too much planning and training can be counterproductive. Threats, in themselves, are often foreseeable. In the lead-up to Iraq’s invasion of Kuwait and the ensuing United States attack, for example, it was clear that something was going to happen. “Everyone assumed that when war broke out, the men would go to the front and the women would stay home with the kids,” Frohman said. Companies focused on obtaining replacement workers.

Events didn’t play out that way. Instead, with Israeli officials unsure where missiles would fall, everyone in the high-risk zone was told to stay at home. Companies like Intel were ordered to shut operations. Frohman refused to comply, and instead invited workers to bring their entire families to Intel’s plant. He turned the company’s bomb shelters into day-care centers so that employees would feel they were actually protecting their families by showing up for work.

“The danger is that if you have a script, you’ll be tempted to stick to it, even if it’s not applicable to your specific situation,” Frohman explained. “There’s no replacement for a leader.”

But many crisis management advisers see great value in training. Crisis training runs the gamut from a simple discussion around a meeting-room table to full-blown simulations. Some consulting firms even hire actors to play the roles of kidnappers or terrorists.

Christine Pearson, a professor at the Thunderbird School of Management, believes simulations can be instructive, and described one of her own client’s experiences. Pearson worked with an oil refinery, whose executives decided to pretend there had been an explosion at the plant. This was a full-scale simulation, with everyone acting out the part that he or she would play in a real-life disaster. Even outside officials such as the city’s mayor and its fire department were involved. Important lessons were learned. For one thing, it turned out that the mayor, the fire chief and the head of the refinery each thought he would be in charge. That realization triggered essential discussions about the division of responsibility in the case of a real-life explosion. The simulation also yielded some practical information: the hoses brought by the fire department to the scene of the pretended disaster did not fit the nozzles at the plant.

“Not everyone can have these kinds of full-blown simulations,” Pearson said. “It takes a lot of money and time, and it’s not always practical. But every company should at least engage in the discussion-around-the-conference-table form of crisis management preparation.”

Studying the way other companies have dealt with crisis can be helpful. But executives need to be careful. When calamity strikes, much of the ensuing action happens behind closed doors. The lack of transparency has led to misperceptions about the way crises sometimes play out.

Here, experts attempt to dispel some of the most common myths about crisis management.

**The interests of individual managers are the same as those of the corporation.**

*In February 2007, the airline JetBlue faced its first big public relations disaster. Weather-induced flight delays stranded thousands of United States passengers and left one plane full of travelers sitting on the tarmac for a harrowing eight hours without sufficient water or food. In the days that followed, the company’s founder and CEO, David Neeleman, seemed to model the best post-crisis approach.*

A charismatic leader who had promised to “bring the humanity back to airplane travel,” Neeleman immediately and publicly apologized. He had workers contact affected passengers personally, by e-mail and telephone, collecting informa-
In 1996, a fast-growing juice maker, Odwalla, faced a terrible situation. Officials in Washington State had linked the company’s apple juice to an outbreak of E. coli bacteria that had killed a small child and sickened many others. The group’s sales plummeted 90 percent.

The chief executive, Stephen Williamson, brushed aside legal concerns about liability, taking care during every media interview to apologize for the disaster. Odwalla also adopted a new method of “flash pasteurization,” which eliminated bacteria while retaining most of the juice’s flavor. As a result, the company’s share price quickly recovered. Williamson later said that he had no preparation in crisis management, but just went with his gut instinct, following tenets of the company’s core values.

Corporate executives can be tempted to rely heavily on their legal department to steer them through situations. This is often a mistake. Public apologies strike fear in the hearts of lawyers, because they seem to imply culpability. Yet apologies are golden in the eyes of the public — particularly the American public, which is often a company’s biggest market. When in doubt, and certainly if lives have been lost, corporate reputation experts say, it’s important for the head of the corporation to immediately express regret. If a crisis is big enough, it is usually just a matter of time anyway before executives yield to pressure to say “I’m sorry.” And if a corporation waits too long — as Toyota did — the apology, when it does come, risks sounding insincere.

“The value that lawyers destroy by trying to be clever more than outweighs the small change they bring in scoring legal points,” said Rory Knight, CEO of Oxford Metrica. And crisis management gurus say the legal risks of public apologies are largely overstated. “I can’t think of a single company forced to make liability payments just because its CEO apologized,” Kovoor-Misra said.

Pearson recommends bringing legal teams into precrisis planning sessions so that they know what’s at stake. “They need to be educated out of the hunkering down mentality that they sometimes have,” she said. “Then, they’ll be better positioned to give good advice when crisis strikes.”
Because crises are not created equal, it sometimes pays to break the rules. Crisis 101, for instance, dictates that a corporation should quickly take responsibility and action for any problem that comes up. But when a woman in 2005 claimed that she had found a human finger in her bowl of Wendy’s chili, executives at the fast-food chain knew something was fishy. They decided to wait for the results of the police investigation, and they were right. The claim turned out to be a hoax. The company had been right to take a more cautious approach.

Another maxim for crisis management is to tell the public everything that you know right away. Releasing information piecemeal can place the corporation on the unenviable news cycle of new revelations on a weekly or daily basis. And that can irrevocably damage a corporation’s brand. “It’s hard to see the value in a news drip approach, like Toyota’s,” said Paul Argenti, a corporate communications professor at Dartmouth’s Tuck School of Management.

But before rushing out a press release, executives need to get their story straight. When North Carolina state inspectors discovered abnormally high amounts of benzene in bottles of Perrier in 1990, the company seemed at first to make the right moves. It immediately ordered a recall of 70 million bottles from North American grocery shelves. The company also re-
Air France could have waited for the results of an investigation, or even for trial proceedings. Instead, the company decided to take immediate responsibility for the accident. The airline demonstrated its concern for safety by permanently grounding its supersonic fleet. Air France also decided to make significant contributions to victims’ compensation packages, which according to news accounts totaled more than $150 million. As a result, the airline emerged from the crisis with its brand reputation intact. And Air France avoided legal confrontation with many of the victims’ families, most of whom are not participating in the lawsuit because of prior agreements with the company.

In 1982, seven people in the Chicago area died after ingesting Tylenol capsules that had been inexplicably laced with cyanide by a malevolent criminal. Before the incident, Johnson & Johnson had held a 33 percent market share in analgesic sales in the United States. Almost overnight, its market share fell to just 7 percent. But the reaction of the chief executive, James Burke, remains the gold standard for crisis management. Although the company was not legally responsible for the killings, Burke took full responsibility. The group ordered a Tylenol recall. Burke became a fixture on television news programs.

A similar cyanide killing four years later induced Burke to take even more decisive action. To ensure such an incident would not happen again, the company introduced new tamperproof packaging that is now standard in the industry. The company quickly recovered its market share, and managers often look to Burke’s example.

Crisis management advisers say that a long period of success, unmarred by crisis, can even set corporations — and individuals — up for a hard fall. “People can get a sense of invulnerability, a belief that bad things happen to others but not them,” Mitroff said. “Just look at Toyota and Tiger Woods. In a way, they were victims of their own success.”

Some executives are unable to turn crisis into an opportunity, Frohman says, because they are too focused on the short term. When Scud missiles started falling near the Intel plant during the gulf war, Frohman knew it was a golden chance to show United States executives the viability of an operation in Israel. “Everyone would understand in the short run if we all just stayed home,” he said. “That wasn’t the question. The question was whether they would see Israel in the long term as a good place to put a factory. That was the opportunity of the crisis, and we took it.”

A long-time correspondent for The Financial Times, Victoria Griffith covers business from Boston.
investment bankers are good at many things, but redesigning the inventory control system at a building-supplies manufacturer, say, may not be one of them.

Having advised on the purchase, sale and financing of many businesses, investment bankers are deal-structure aces and capital-markets gurus, and they know a lot of people. These are valuable attributes to have in a private equity firm. Until recently, in fact, a great many private equity firms saw spectacular success based almost entirely on investment-bank-honed skills.

Today, however, deal-making talent is necessary, but it not sufficient for private equity success.

Significant changes in the market and economy have left many private equity firms staffed up for an opportunity that has come and gone. There is a somewhat pejorative bit of jargon for what many private equity firms did to produce returns in the erstwhile boom years: “financial engineering.” This term connotes the application of leverage and the negotiation of sponsor-friendly capital structures, among other things. But it does not connote transforming and improving the core operations of a company.

Private equity firms need to add operating talent to their lineups in order to stay competitive. The most successful of these will share substantial ownership stakes with their new partners.

By David Snow
When the economy was pointed up, the earnings growth at private-equity-backed portfolio companies largely took care of itself. This made the work of private equity general partners much easier, or at least it played to their strengths. Indeed, economic momentum, coupled with cheap and abundant debt, facilitated impressive feats of financial engineering throughout the early 2000’s that allowed the private equity industry to grow to dimensions not previously imagined.

Most of the well-known private equity firms that raised funds in the early 2000s went on to produce spectacular returns. These firms were able to raise much larger subsequent funds because of their great success with the early 2000-vintage vehicles, which had the good fortune of having acquired solid companies on the way out of a recession. The subsequent strengthening of the economy and loosening of the debt markets meant that private equity firms were able to realize all kinds of value from their investments. Not only were these companies growing organically, their sponsors were able to pay themselves and their investors fat dividends through artful recapitalizations.

That game has changed, however, and as the economy and credit markets return to health after the Great Recession, the private equity playbook of the last cycle will not be closely consulted. Leverage can no longer be counted on to create sufficient value in a private equity investment. In addition, sea changes in technology and the interconnectedness of the global markets have left companies all over the world in need of more than just capital. They also need operational leadership and strategic redirection. The private equity firm of the future will be able to provide all of these elements.

**Keeping customers happy**

In other needs of their portfolio companies, what private equity firms need today above all else are partners who can indeed redesign the inventory control system at a building-supplies manufacturer. The stakes are high — if general partners can’t help their portfolio companies perform better, their firms risk extinction in an increasingly Darwinian fund-raising market.

The institutional investors who back private equity funds are slowly beginning to emerge from the debris of the economic crisis. These limited partners have less money but more questions for their private equity fund managers. The good news for general partners is that private equity as an asset class remains relatively attractive to limited partners, recent headaches notwithstanding. But these investors are increasingly choosy about the kinds of fund managers they will back. They and their investment consultants are now armed with several cycles’ worth of data on private equity fund performance, and have developed strong views on how to spot private equity groups that have special ingredients for producing above-average returns. Increasingly, these investors believe that operational excellence is chief among these ingredients. They are therefore keen to learn not simply how much value was created by general partnerships, but how the value was created. Leverage, momentum and luck are not the right answers.

Of course, over the history of private equity’s development, it has always been difficult to find a general partner who didn’t claim to be above all a business builder. Many private equity firms do indeed excel at building, changing and improving businesses. Others claim to, but have failed to fully cross-breed operating talent into their firm’s DNA. In the private equity business, there’s an old saw that would be funnier if it weren’t painfully true: many firms began life as “four investment bankers and a Rolodex.” But most have tried hard to evolve beyond this deal-maker genesis.

Structures created to deploy “operating guys” run a wide gamut across the private equity industry. One firm may have several senior full-time partners with industry-specific backgrounds working ceaselessly with portfolio companies to effect change and growth, while another firm will call a retired CEO in from the golf course once a quarter to offer advice and contacts. Both firms will claim operational prowess.

Broadly speaking, the evolution of the private equity industry beyond four-bankers-and-a-Rolodex has produced several species of operating strategy:

**Talent on the board.** Some private equity firms have added executives and former executives with years of experience in targeted industries to the boards of their management companies.

**Special advisers.** Executives with specific industry backgrounds often become advisers to one or more deals backed by a private equity firm.

**Platform investing.** Many private equity firms put together teams of executives specifically for building, acquiring or piecing together companies in targeted markets. In some cases, these executives will go on more than one “round trip” with a private equity sponsor.

**Call in the consultants.** Although they tend not to brag about this, many private equity firms hire business and strategy consultants to help them set strategic directions for their portfolio companies. This advice is paid for by the portfolio company itself. Some private equity firms, like Kohlberg Kravis Roberts, own affiliated business consulting firms that provide this work.

**Driving with a “dashboard.”** Among the most impor-
The stakes are high — if general partners can’t help their portfolio companies perform better, their firms risk extinction in an increasingly Darwinian fund-raising market.

tant trends of the past five years has been for private equity firms to provide centralized resources to their portfolio companies. This approach is often called a “dashboard” because it provides the general partnership with cross-portfolio control of costs and corporate governance. For example, a private equity firm may require all of its portfolio companies to buy into the same health care system, managed by specialist staff members at the general partner level. Besides seeking savings through group purchasing, an increasing number of private equity firms are hiring experts in capital markets, human resources, technology, communications and financial management specifically as resources to be used by portfolio company executives.

All of the above strategies are steps in the right direction and have on occasion been executed with great success by private equity firms. But the private equity firms best positioned to succeed in the long term will be the ones that fully weave operating talent into the fabric of their partnerships. This will be the firm model to beat as private equity regains its footing and again begins to play a major role in the corporate world. It is a model that will reshape the fortunes of many private companies as well as redraw the career maps of many talented executives.

The full operating-partner model will succeed most often because it creates the most powerful alignment of interests between the operators and the other members of the firm.

There are three layers of success in private equity — success of the deal, success of the fund, and success of the franchise or firm. The most powerful incentive structure ties a private equity professional to all three forms of success. In many cases, however, operating talent brought on board a private equity endeavor participates only in the upside of a specific deal or deals. It is, of course, essential that the, say, semiretired specialty-retail executive advising on a private equity firm’s specialty-retail investment be given options in the company. But this advisory structure doesn’t answer several important questions: Does the firm have the full attention and energy of this operating executive? If the investment goes sideways (as many have recently), will this operating pro throw himself or herself into stabilizing the business? Is the success of this deal repeatable? Is a meaningful percentage of his or her net worth tied up in the deal? Does this person take a view on the future of the firm itself, its quality of deal flow, its adoption of industry-leading practices?

Crucially, can the private equity firm raise its next fund by showing that value was created by a hired gun? The private equity firm of the future is one in which the “operating guys” are full partners in the firm, sharing in the economics of each deal, each fund and the management company itself. These are full-time jobs,
find it difficult to pass ownership stakes and control to firms that they painstakingly built, they’ll need to right time. 

rectly installed, is very involved in the investment com-
mittee — sourcing, reviewing and debating the merits roll than absorb the significant expense of luring a suc-
cessful executive at the height of his or her career into the partnership.

But if these founders care about the future of the firms that they painstakingly built, they’ll need to broaden ownership and create permanent, economically compelling roles for operators. The private equity opportunity has changed, and investor appetites for private equity funds have changed along with it. In the next 10 years, the top quartile will be populated by firms that have helped companies race ahead of the incredible changes roiling global business. To do this, they will need to partner with a limited number of executives who can see these changes coming, and who possess the brute managerial force to steer their companies to victory.

The private equity firms that get this model right will, in turn, attract operators who will view private equity as the best platform for their talent — the most independent, flexible, rapid and potentially lucrative way to build the right businesses in the right way at the right time.

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full partner in the carry of the firm.”

In the last year, the firm has added two more people with C-suite backgrounds to its investment committee — Richard Zannino, the former CEO of Dow Jones & Company, and Karl Kurz, the former COO of the Anadarko Petroleum Corporation.

The difference between the roles that Brenneman, Zannino and Kurz play within CCMP and those of the sundry operating advisory gigs found at other private equity firms is material. As Brenneman explains: “What most firms do is hire an industry expert, like a retired CEO. They’ll put him in and give him incentives based on the deals he works on. The problem is, that partner isn’t focused on the success of the overall enterprise. Because we have fund-level incentives, Rich and Karl have already made huge contributions across our portfolio since they joined.”

**Project Generac**

It wasn’t long before Brenneman, the chairman and resident turnaround ace of CCMP, got busy turning around the operations of a challenged portfolio company. CCMP acquired Generac Power Systems in 2006 and has invested, along with several of its limited partner co-investors, $700 million in equity. In 2008, CCMP found itself the owner of an indebted producer of home standby power generators facing a steadily weakening economy. “We looked at it and said, ‘Gee, looking forward, the first thing that is going to struggle will be a consumer durable business’,” Brenneman remembered.

Generac’s CEO retired and was succeeded by the company’s CFO, Aaron Jagdfeld. Brenneman, Jagdfeld and their team then drew up a plan for Generac that included far more than defensive cost-cutting. Generac would expand into a new line of business: portable generators. The company would also raise prices on its core products, despite some protests from management. “Aaron said there’s no way we can raise prices — everyone will scream,” said Brenneman, who insisted to his new CEO that Generac’s customers would be flexible on pricing. “I told Aaron: ‘Trust me on this. If it doesn’t work, I will share the blame. And if it does work, you’ll get 100 percent of the credit.’”

The plan worked. Generac today is No. 2 in the portable generation market, and its earnings before interest, taxes, depreciation and amortization (EBITDA) have increased 20 percent throughout the recession. In February, CCMP took Generac public, raising $247 million.

Generac’s upward trajectory is attributable not only to operational initiatives. An additional $259 million in Generac’s debt has been retired, thanks largely to the execution of CCMP’s partners with deal-making and investment banking DNA. The private equity firm had structured its credit agreements with Generac’s lenders so that CCMP had the ability to buy back debt at a discount and exchange it for equity. This capital markets activity, together with the recent IPO, has brought the company’s net leverage to 4.6 times EBITDA from approximately 7 times EBITDA at the time of the buyout.

“We took a business that in normal circumstances would have been written down to 20 cents, 30 cents on the dollar, and took it public at 10 times EBITDA,” Brenneman said.

Brenneman says that the decisions to raise prices and expand into a new market in an economic crisis were “hard to understand if you’ve never run a business.”

That said, rather than step into the day-to-day operations of his portfolio companies, Brenneman prefers to help set strategy and let the portfolio-level executives, like Generac’s Jagdfeld, execute. CCMP “was engaged, on the right items. When you’re trying to run a business, the last thing you want is a guy sitting next to you telling you what to do.”

Not that executives of CCMP’s portfolio companies mind the advice. Brenneman says that more often than not he is approached by these CEOs for counsel. “Being a CEO is very lonely,” he said. “They love the chance to sit down with someone who has been there before.”

CCMP’s greedy bet is that the value created in the dynamic between portfolio company CEOs and its operators will more than pay for the economic cost of letting these executives into the partnership. As Murray said, “We’re betting our operating capabilities will increase the overall value created, and I’d much rather take a smaller slice of a bigger pie if it means getting more in absolute dollar terms.”
Innovation is management’s holy grail. The more rapid the changes in the business environment, the more knowledge-intensive the economy and the more global the competition, the more crucial a company’s ability to innovate becomes, argues Linda A. Hill, a professor at the Harvard Business School.

And yet this much-sought-after capability is legendarily elusive. Despite tomes of advice on how to foster innovation — whether in new products, services, business processes, organizational structures or business models — it remains a mysterious and unachievable goal for many organizations. One reason is that we have not paid enough attention to the kind of leadership needed to catalyze bold and value-creating innovation.

That is Hill’s conclusion after spending the past 10 years studying the inner workings of some of the world’s most innovative organizations. Her research subjects are worldwide, from Silicon Valley to India and Korea. They include teams in industries as varied as entertainment, information technology, luxury goods, legal services and Islamic banking.
ment from which it can emerge. The type of person able to create this kind of context will most likely depart — in profile and behavior — from the conventional model of the business leader.

Hill’s study of the relationship between leadership and innovation builds upon her work on leadership as a teacher, researcher and consultant. In the early 1990s, she led the development of what is now Harvard’s required MBA course on leadership. Her research into the challenges faced by first-time managers resulted in the book, “Becoming a Manager: How New Managers Master the Challenges of Leadership.”

She is working on two new books, “Being the Boss: What It Takes to Be a Great Leader,” with co-author Kent Lineback and scheduled for publication by Harvard Business Press in 2011, and another as yet untitled, with co-authors Greg Brandeau and Emily Stecker, on the collective genius research. Hill is currently the faculty chair of the High Potentials Leadership Program at Harvard Business School and of its Leadership Initiative, which aims to bridge the gap between scholarship and practice.

Although Hill’s base is the academy, her research immerses her in real-world organizations. And when she dives into a company for study, she gives as well as takes, according to some of the managers who have been subjects of her research. A senior executive at one of the world’s largest technology companies recounted how she helped him think about how to turn an effective innovation program into commercially successful products and services. “Because she has such a broad field of view, she was able to take insights gained in very different settings and apply them to our situation,” he said.

Brandeau, chief technology officer of The Walt Disney Studios as well as a co-author with Hill, says Hill’s leadership insights arise from a deep appreciation of human nature. “She has an unbelievable knack for connecting with people, finding out their life stories and being interested in them,” he said. In fact, Brandeau recalled, when Hill interviewed him for a business school case study she was writing years ago, “she got inside my head and captured exactly what I was about.”

In this edited conversation with Paul Hemp, a former senior editor for the Harvard Business Review and a contributing editor for The Korn/Ferry Institute’s Briefings on Talent & Leadership, we try to get inside the head of Linda Hill to learn how leaders can foster innovation.

Briefings: What is the most surprising conclusion to emerge from your research about leadership and innovation?

Hill: That everyone in an organization — everyone — does indeed represent a slice of genius. Not all slices are equal of course; genius isn’t evenly distributed among the population. But we see time and again the potential of a seemingly ordinary person to make an extraordinary contribution to innovation.

And this is something that too few leaders realize, or at
least act upon. Even if they intellectually appreciate that everyone has a creative spark, most leaders don’t see it as their job to take advantage of that. They have been taught to believe it is their responsibility to come up with the big idea when, in fact, the best way to achieve breakthrough innovation is through collaborative work involving a diverse group of people and a collective process of iteration and discovery.

Our society’s notion of the brilliant innovator, the solitary genius with a sudden flash of creative insight — like the notion of the charismatic leader — is hard to shake. In the media and in our minds, we assume that it’s only someone like Steve Jobs who can lead an innovative organization. Nothing against Steve Jobs, who is brilliant. But when you look closely at what happens when something truly novel and useful is being created, you see it’s usually a group effort, which means that the highly skilled leaders of innovation aren’t just the Steve Jobses of the world.

Rather, they’re people able to shape a genius-nurturing context in which others can make innovation happen. And when you create this context, you’ve created an organizational capability that can produce not only a single great idea but sustained innovation.

Until companies rethink what innovation and leadership are all about, innovation will remain an unnatural act in many organizations. Instead of innovative communities, we’ll continue to see what Gary Hamel calls creative apartheid, an environment in which a few gifted individuals are given responsibility for innovation, while other members of the organization get on with the humdrum work of conducting business.

Okay, so I do not have to be a genius like Steve Jobs. But what do I have to be, if I want my organization or team to generate innovative ideas?

HILL: Let’s first talk about what you’re trying to achieve and what you, as a leader, need to do in order to get there.

To capitalize on the collective genius in your organization, you need to create an environment where innovation will happen. Such an environment both unleashes people’s talent — their genius — and harnesses that genius in order to come up with innovative solutions to problems.

It’s also an environment in which people are both willing and able to innovate. That is, it’s a community that people want to be part of — a “world they want to belong to” in the words of an executive at one company we studied — and that also embodies the organizational capabilities needed for innovation.

So how do you create an environment in which people willingly, even enthusiastically, participate in the innovation process?

HILL: Any number of ways, but two methods are particularly powerful.

First, give people the opportunity to contribute to something larger than themselves.

Many of the companies we’ve studied have intensified their efforts to make sure that the corporate purpose speaks to the loftier aspirations of their people. For example, one
business development initiative at I.B.M. we studied attracted volunteers from across the vast global organization with a goal of identifying commercially viable projects that would benefit people in developing economies.

That said, contributing to something larger than one's self isn't necessarily about saving the world. Take the purpose of another company we've studied, Pixar — to make blockbuster films that the whole family can enjoy.

Second, affirm each person's ability to contribute to the process. There has to be an environment of mutual respect and trust, in which people, no matter who they are, feel comfortable expressing their ideas and believe that those ideas can actually have an influence. But there is so much fear in many organizations that people aren't going to freely share their thoughts unless a group's leadership has made it psychologically safe for them to do so. The best way to establish this atmosphere is to convince people that the next great idea can come from anyone, anywhere.

People's willingness to enthusiastically join an innovation initiative and freely share their ideas will unleash creative energy you never imagined existed in your organization.

This all sounds well and good, but a little idealistic or even naïve. You know, “Everyone has something to contribute to the group.” Is that really the way the world works?

HILL: Remember what I said earlier: Genius isn't evenly distributed. And your company's hiring processes hopefully ensure that your organization is made up of the right people — that is, relatively big slices of genius. I mean, why have someone in your company who doesn't have something special to offer?

But all too often the question is, “How can I get the right people?” rather than, “How can I unleash the talent of the people I already have?” I stand by the original premise: Everyone has a slice of genius that it would be foolish to squander and that, when combined with other slices, can lead to breakthrough innovations.

Rather than worrying about paying too much attention to people who are unlikely sources of breakthrough ideas, we should be concerned about a group's tendency to defer to experts. When a decision apparently falls within someone's area of expertise, it's all too easy to follow their lead. But while experts' opinions may merit special weight, they shouldn't be viewed as the final word.

We all know how the “dumb question” from someone less experienced or unfamiliar with a topic can lead to fresh perspectives that in retrospect were blindingly obvious. This is especially true when those questions are refined and focused by someone with expertise — and who isn't threatened by or disdainful of such a question.

In the case of innovation, contributions from nonexpert sources have particular potential simply because a true breakthrough idea may ultimately and unexpectedly spring from a domain that has nothing to do with the apparently relevant area of expertise.

Greg Brandeau, a collaborator on this research, was the head of technology at Pixar when we first began our work. He pointed out to me that filmmaking at Pixar is a team sport, involving hundreds of people working together on a project for three or four years. The group working on a Pixar film embodies an incredibly broad array of both artistic and technological expertise — in fact, Greg came up with the phrase “slices of genius.”

The process begins with the director's vision for the film, its inspiration. But along the way, individuals from throughout the company collectively help shape that vision. Someone might have a great idea for, say, the story or the animation or how to do some special effect. Anyone in the studio can offer feedback or suggestions to the director. The process is so collaborative that the credits of a Pixar film include the names of everyone in the company, as well as babies born to team members while the film was being made.

Yes, people have different areas and levels of expertise, from the director on down, but these are only a starting point. That’s because what initially may look like, say, a question about the story line in fact highlights an animation challenge. Indeed, over the course of the project, a network of ideas emerges that wasn’t available to the director when the vision was first articulated. For instance, an idea may involve cutting-edge technology that can be developed only in real time as the project progresses. In the truest sense, each one of Pixar’s highly successful films is the result of team members’ collective genius.

So you motivate people by making sure everyone’s contribution is valued, by articulating a common purpose — that’s the willing part. What about the able part of the innovation-generating environment you are describing? How do you harness the creativity you have unleashed?

HILL: Well, your organization or team needs three required capabilities. One is what my Harvard colleague Dorothy Leonard calls creative abrasion — the generation of ideas through intellectual disagreement among diverse points of
view. As I’ve said, I don’t believe that most breakthrough ideas result from a sudden flash inside the head of a single genius. Instead, they emerge from a series of sparks generated by sometimes heated clashes among different points of view.

In order to develop this capability, you need to ensure diversity in your group and, if necessary, amplify the differences among people and their talents and views in order to generate conflict. Because this conflict can be awkward and uncomfortable, a leader needs to have created something I mentioned a minute ago — an environment where people feel safe making their views known.

You also need to foster creative agility — the organization’s capability to quickly identify, test and refine ideas. The most innovative teams adopt a strategy of “try early and often” or, as the design firm IDEO has characterized it, “fail often to succeed sooner.” Missteps and “failures” are considered a normal part of the process. Instead of viewing variation as an error and trying to eliminate it, innovative teams actually introduce variation into the ideas being tested and see where it leads.

Finally, you need to seek creative resolution, decision making that integrates the best elements of various ideas and alternatives — including those that initially seem to be in opposition to one another. Replace a rigid either/or approach to the selection process with an expansive “and” approach. Keep an open mind about alternatives and possibilities for as long as is feasible.

This isn’t easy, of course. The human mind longs for certainty, and uncertainty makes most people anxious — particularly leaders who define themselves by their ability to be decisive. There isn’t much in the way of individual glory and heroics in this kind of integrative problem solving. Indeed, when working well, it’s often hard to ascertain where an idea originated, never mind assigning credit to specific individuals.

Creating this kind of environment with these organizational capabilities is tricky because it is riddled with paradoxes that a leader must carefully manage. For example, fostering creative abrasion requires the affirmation of individuals’ diverse identities and talents while promoting the collective identity and shared purpose of the group. It requires provoking potentially divisive confrontation among members of the
group while encouraging them to support one another — but not so much that they become hesitant to disrupt friendly relationships with robust debate.

Creative agility requires a leader to balance learning by team members with company performance goals. Letting a team experiment, iterate, debrief, learn and start over, if necessary, doesn’t always work in favor of meeting short-term financial performance targets. The pursuit of creative resolution requires a blend of bottom-up initiatives — most innovation will bubble up from below — and top-down interventions to keep the group on track.

W. L. Gore & Associates, which makes everything from Gore-Tex fabric to surgical products, has become one of America’s most innovative companies by embracing paradoxes such as these. Founded by an engineer determined to create an innovator’s paradise, the company established a few simple principles — and then gave employees tremendous rein within the parameters created by those principles. For example, the principle of “waterline” refers to the expectation that an employee will consult with knowledgeable colleagues concerning any issue or decision that could potentially harm the Gore enterprise. But employees are free and encouraged to experiment at will with ideas that involve drilling holes above the waterline!

So let’s get back to what this all means for leadership. If this is the kind of environment I want to create as a leader, what do I do differently?

HILL: Some of the answers are implicit in what you’re trying to achieve. If you want innovation that emerges from collective genius, don’t make the common mistake of overlooking the slice of genius that each individual offers. When assessing people to join your team, learn to see the extraordinary where others see only the ordinary. Act as if everyone matters — because they do.

If you believe in the power of collective genius, don’t see yourself as the sole source of new ideas. My co-author Greg Brandeau recounts his early days as a manager, when he followed the customary routine of a new manager; he tried to do his old job, plus tell everyone else what they should do. Then he realized that, while he might be smarter than some of the people he was managing — even smarter than a couple of them put together — he wasn’t smarter than ten of his people. That’s when he realized that his job as a manager was to create an environment in which those ten people, and everyone else, worked at their peak potential.

Such things as these represent important modifications to your leadership style. But the concept of collective genius actually calls into question some of our basic thinking about leadership itself.

Almost by definition, being a leader has usually meant setting a course and mobilizing people to follow you there. When you’re leading for innovation, though, that just doesn’t make much sense. If you want your team to produce something truly new and original, you don’t know — again, almost by definition — exactly where you’re going. The traditional leadership model just doesn’t work here. So the great leader of innovation, instead of setting the direction, creates the context for innovation.

So if it does not make sense to lead from the front, where exactly do you lead from?

HILL: Well, you lead from behind.

That sounds like a contradiction in terms!

HILL: I came across the phrase in an autobiography of Nelson Mandela, who was himself certainly an innovator, a social innovator, of the highest order. He recalled how a leader of his tribe talked about leadership: “A leader is like a shepherd. He stays behind the flock, letting the most nimble go out ahead, whereupon the others follow, not realizing that all along they are being directed from behind.”

The image seemed a particularly apt metaphor for how innovation emerges from collective genius. We’re talking about a collective and fluid activity in which different people at different times — depending on the nature of their particular slice of genius or, in this metaphor, their nimbleness — come forward to move the group in the direction it needs to go. It also hints at the agility of a group that does not have to wait for and then respond to a command from the front.

It’s important to realize that leading from behind doesn’t mean abrogating your leadership responsibilities. After all, the shepherd makes sure that the flock stays together. He uses his staff to nudge and prod if the flock strays too far off course or into danger.

The image of a shepherd as someone leading from behind is a vivid one.

HILL: It’s a vision of leadership that I believe goes beyond the context of innovation. Business leaders must not only catalyze the collective genius of their people but, in a rapidly changing business environment, catalyze collective leadership — that is, people throughout an organization making decisions and leading initiatives that can’t wait for approval from the top.

Leading from behind is also a style of leadership that can motivate a new generation of employees, brought up among social networks and collaborative multiplayer computer games, used to sharing leadership responsibility.

But the relevance of leading from behind to innovation alone makes the concept worthy of consideration. With innovation increasingly the central factor in a company’s competitive success, and survival, the ability to foster it will be a central leadership skill.
"And another thing - the briefcase - lose it."

There are no facts, only interpretations.
—Friedrich Nietzsche

"If there's no more old business and no more new business, let's declare bankruptcy."

"Miss Dugan, will you send someone in here who can distinguish right from wrong?"

"New money, Bobby, is old money that got away."
DAN
ARIELY
Predictably
Irrational

By Glenn Rifkin
Becoming a star in the controversial academic discipline of behavioral economics is not for the faint of heart.

Battle lines were drawn nearly four decades ago when innovative thinkers such as Daniel Kahneman, Amos Tversky and Richard H. Thaler challenged traditional economic dogma with their theories about the unpredictable impact of human behavior on tried-and-true economic models. Treading on the sacred ground of mainstream economics set off an intense controversy and inter- and intra-disciplinary sniping that has continued unabated ever since.

For Dan Ariely, a behavioral economist at Duke University’s Fuqua School of Business and author of the best-selling “Predictably Irrational: The Hidden Forces That Shape Our Decisions” (Harper, 2008), a little testy debate about his work pales in comparison to his own remarkable odyssey. An Israeli who was born in New York City but raised in Ramat HaSharon, a small city just north of Tel Aviv, Ariely welcomes combative discourse with the relish of someone who has endured tougher battles.

When Ariely was 18, just after he had joined the Israeli military, he was at a meeting in a room filled with munitions when a magnesium flare, the kind used to light up battlefields at night, inexplicably ignited. The explosion left him severely burned over 70 percent of his body. After an agonizing three-year hospital stay, countless surgeries and skin grafts and a painful struggle to heal, Ariely re-entered a world that had become alien and inaccessible. He had to relearn the mundane aspects of life, like how to step into a bath and to reconnect as a social being. Instead of succumbing to self-pity, he returned to academia and discovered the initial precepts of his career. Today, the 43-year-old Ariely retains what he describes as his Israeli combativeness, along with a wry sense of humor and unflappable balance. His ordeal fueled a deep introspection about his own psychological makeup and a fascination with why people behave as they do.

Traditional economists dismiss Ariely’s work and that of other behavioral economists as inconsequential trivia — clever lab experiments that do not apply to the real world of finance and politics. But, Ariely believes that the economic meltdown in 2008 and former Federal Reserve Board Chairman Alan Greenspan’s confession that he had been wrong about the rationality of markets vindicate his life’s work. If Ariely is an expert on anything, it is irrational behavior.

— A sample experiment conducted by Dan Ariely

Suppose you walked into a large public building and noticed a table set up with a big sign offering “One chocolate per customer.” At the table, you were given a choice: a high quality Lindt chocolate truffle for 15 cents or a Hershey’s Kiss for one cent. What would you take? In the experiment, customers made a very “rational” choice. About 73 percent chose the better Lindt truffle while 27 percent bought the Hershey’s Kiss. But suppose you came back the next day and the price had changed. Now, the Lindt is 14 cents and the Hershey’s Kiss is free. Would you expect a difference in customer reaction? Should there be? In fact, 69 percent of the customers chose the Hershey’s Kiss when it was free, and the Lindt buyers dropped to 31 percent. The 14 cent price difference had not changed, but “free” made all the difference. It created a struggle in making a decision and led the customers to make a bad decision, giving up what they actually preferred for something inferior. It was irrational but hardly unexpected. It happens all the time.
Ariely first confronted irrational behavior during his prolonged stay in the Israeli hospital. The bandages and dressings covering his badly burned body required daily changing. The nurses insisted that the correct and least painful procedure was to rip the bandages off quickly—much as a parent removes a child’s Band-Aid—starting with the most damaged area and moving to the least affected spot. But in Ariely’s case, this hourlong process was torture and he quickly grew to dread it. He believed that a slower, gentler bandage removal would be far less excruciating even though it would take twice as long. The nurses refused to believe him.

Later, when he had finally left the hospital and entered Tel Aviv University, Ariely took a class on the physiology of the brain taught by Hanan Frenk, who became an early mentor. With Frenk’s guidance, Ariely designed and conducted a series of experiments using heat, cold water, pressure from a vice grip, loud noises and the like to determine how people reacted to pain. When he finished, he had evidence that he had been correct and that the nurses in the hospital had come to an irrational conclusion and had been wrong.

Although Ariely returned to the hospital and explained his research to the nurses, they politely refused to change their methods. But for Ariely, the experience was cathartic. It “profoundly changed my outlook on research and largely determined my future,” he wrote. More than anything, Ariely’s experience taught him to question what was presumed to be fact and to pursue evidence to support his conclusions. He became enthralled with experimentation and from that point on relied on empirical information to shape his thinking. He sat for hours in coffee shops and observed people and their behavior.

Now, with a doctorate in psychology and a second doctorate in business administration, Ariely, a determined iconoclast, retains an insatiable curiosity about what motivates people. In an irrational world, a rational man may be king, but Ariely believes that irrational behavior is not only predictable but also potentially profitable for open-minded, innovative thinkers in business, politics and other facets of life. He enjoys passionate debate nearly as much as the countless experiments he has conducted for his academic research. Meanwhile, his best-selling book has catapulted him into the international spotlight.

The book describes dozens of experiments Ariely conducted over the past decade with colleagues and graduate students, mostly during his years at the M.I.T. Sloan School of Management and in other appointments at Princeton and the University of California, Berkeley. His experiments are an eclectic mix, scrutinizing everything from online dating to the origins of unethical behavior. He makes extensive use of student bodies by enlisting them in a variety of empirical studies. For example, he tested the placebo effect created by high-priced brand name aspirin versus a cheap store brand among students.Ariely first confronted irrational behavior during his prolonged stay in the Israeli hospital. The bandages and dressings covering his badly burned body required daily changing. The nurses insisted that the correct and least painful procedure was to rip the bandages off quickly—much as a parent removes a child’s Band-Aid—starting with the most damaged area and moving to the least affected spot. But in Ariely’s case, this hourlong process was torture and he quickly grew to dread it. He believed that a slower, gentler bandage removal would be far less excruciating even though it would take twice as long. The nurses refused to believe him.

Later, when he had finally left the hospital and entered Tel Aviv University, Ariely took a class on the physiology of the brain taught by Hanan Frenk, who became an early mentor. With Frenk’s guidance, Ariely designed and conducted a series of experiments using heat, cold water, pressure from a vice grip, loud noises and the like to determine how people reacted to pain. When he finished, he had evidence that he had been correct and that the nurses in the hospital had come to an irrational conclusion and had been wrong.

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Ariely has been spotted slipping into dormitories or working in disguise as a server in a bar, all in the name of social science. He once sneaked into a dormitory at the Massachusetts Institute of Technology and deposited several six-packs of Coca-Cola in refrigerators in communal areas on each floor. He surreptitiously monitored the refrigerators and discovered that within 72 hours, all the Coke was gone. Next, he placed a plate containing six one-dollar bills in each of the same refrigerators and waited. After 72 hours, not a single dollar had been taken.

Ariely concluded that people are comfortable cheating or stealing when cash is not directly involved. “Companies cheat with their accounting practices, executives cheat by using back-dated stock options, lobbyists cheat by underwriting parties for politicians,” he wrote. As long as people can keep some distance from taking actual cash, they can somehow justify dishonest behavior. This can explain a great deal about the rash of corporate malfeasance in the past decade. The leaders of Enron would not have mugged old ladies with black-jacks and taken money from their purses, but they were able to rationalize
destroying the retirement savings of tens of thousands of employees and investors, Ariely noted.

Given that traditional economists failed to predict or explain the events of the past three years, Ariely is convinced that behavioral economics is the correct approach for understanding and addressing global economic challenges.

“As the results presented in this book show, we are all far less rational in our decision making than standard economic theory assumes,” Ariely writes. “Our irrational behaviors are neither random nor senseless — they are systematic and predictable. We all make the same types of mistakes over and over, because of the basic wiring of our brains. So wouldn’t it make sense to modify standard economics and move away from naïve psychology, which often fails the tests of reason, introspection and empirical scrutiny?”

To promote empiricism, Ariely has dedicated his life to experimentation. He is happily married and has two small children, but he has little time for outside interests. “I used to be a more interesting guy with hobbies, like flying a plane and scuba diving,” he said. “But academia really takes over everything. I have many more ideas for experiments than time to do them.”

Michael I. Norton, an assistant professor of marketing at Harvard Business School, did his postdoctoral work at M.I.T., where Ariely was his advisor. “You could go to his office and say, ‘I ran 100 experiments, published 20 papers and wrote 10 best-selling books’ and he’d pause and reply, ‘What else?’” Norton said. “He also applies that to himself. ‘What else can I do? What are the interesting questions, who are the people I could work with and talk with?’

It is always, ‘What’s next?’ A lot of academics get stuck working on the same thing. Dan is always looking for a way to move things forward.”

Ariely has become a much sought-after expert amid the current enthusiasm for behavioral economics. He was part of a dream team of behavioral scientists and economists, including Kahneman, Thaler, Cass R. Sunstein and Robert B. Cialdini, that advised Barack Obama about fighting negative advertising, soliciting campaign contributions and getting out the vote during his presidential campaign. And, Ariely’s book is one of several behavioral science-based business best-sellers, also including “Freakonomics,” “Nudge” and “The Wisdom of Crowds,” that has challenged mainstream economic thinking. His follow-up book, “The Upside of Irrationality: The Unexpected Benefits of Defying Logic at Work and at Home,” is just arriving in bookstores.

For Ariely, his core argument is straightforward.

“Standard economics assumes that we are rational — that we know all the pertinent information about our decisions, that we can calculate the value of the different options we face, and that we are cognitively unhindered in weighing the ramifications of each potential choice,” Ariely writes. “The result is that we are presumed to be making logical and sensible decisions. And even if we make a wrong decision from time to time, the standard economics perspective suggests that we will quickly learn from our mistakes either on our own or with the help of market forces. On the basis of these assumptions, economists draw far-reaching conclusions about everything from shopping trends to law to public policy.”

But Ariely and his fellow behaviorists disagree. They believe that economists would make a lot more sense if it were based on how people actually behave instead of how they should behave. Using this hypothesis as a guide, Ariely believes there are unlimited social, economic and political problems that can be solved or at least addressed more effectively in a chaotic world.

**Observing Human Behavior**

From his lower-level office tucked away in a corner of Fuqua’s modern glass and steel building, Ariely has emerged as a faculty celebrity and a magnet for students and visitors from around the world. He keeps a Segway parked outside his door for the joy of using it and to make his movement across the vast campus quicker and easier on his damaged body. The burns left massive scars across his arms and face. Skin grafts on the right side of his face are noticeable but unobtrusive. With large dark eyes and a shock of dark hair, Ariely has a boyish appearance reflecting a mischievous nature that his friends say goes back to his early childhood. Even in seventh grade, Ariely was opinionated and rebellious, an Israeli Ferris Bueller who led an uprising of his classmates against the administration and demanded extensive school reform. He penned a students’ Bill of Rights, circulated petitions and won on a host of issues, including the content of quizzes. Eventually, he pushed too far.

“I was actually expelled from middle school,” Ariely recalled with a smile. “The principal was trying to run a very tight ship, and I was causing her a lot of grief.” He was able to negotiate his way through high school, exercising more restraint, and was just about to fulfill his presidential campaign. And, Ariely's points out that if not for techniques for treating burn victims developed during the Vietnam War, he would have died. The pain was so prolonged and so relentless that he contemplated suicide. Yet he insists he never asked, “Why me?” “I did ask myself...
Food for Thought from Dan Ariely  

Five Irrational Takeaways for Senior Executives  

1. Supply and demand do not behave as you might expect. The amount consumers are willing to pay can easily be manipulated.

2. Price can influence expectations, and expectations can influence the real performance of products. For example, people often form expectations about a product’s performance based on its price, and if the identical product is sold for less, they will experience its performance as inferior.

3. Even if people are paid more, they may perform worse.

4. The power of fuzziness can induce people to cheat by just a bit and at the same time think of themselves as honest people.

5. “Irrational” is a complex word and what may appear as irrational behavior — e.g., blocks of voters apparently voting against their own self-interests — may be perfectly sensible with a more nuanced understanding of human nature, such as an appreciation for people’s concern for others.

whether all the pain was worth it, but I never felt bad for myself,” he said.

The second stage of his treatment may have been the toughest. “The sad thing was that as I got better, it became worse,” he explained. “I didn’t really understand the implication of these kinds of burns. I thought, ‘Everybody has a burn and it will just go away, right?’ We don’t have an image of a burn that never goes away. These skin cells today are not the same cells that got burned, but they keep on regenerating as scars.”

While Ariely was coming to grips psychologically with the realities of his future, he had to deal with another physical trauma, the shrinking of the scar tissue. As each day passed, Ariely had to constantly stretch his extremities to keep the scar tissue from tightening so much that he could not use his hands, arms or legs. “It really felt like a betrayal, as if my body was acting against me and that I had to hurt myself to overcome my body,” he said. “It wasn’t about wanting to get better; I just want to deteriorate.”

Having been so isolated for so long during such a formative period in his life, Ariely had lots of time to ponder questions about human behavior. When he finally arrived at the university, his passion for researching these life questions blossomed.

“He was one of those students who was a lecturer’s dream come true,” said Hanan Frenk, the professor and mentor. “He haunted his lecturers and pressed them relentlessly for answers. I had very few students like him, and I took an immediate interest in him. He visited me during office hours and drove me to the limits of my knowledge.”

In his Duke office, Ariely is similarly pressed by students for his attention and his insights. Canvassing former students and associates, one hears over and over about his generosity and genuine concern for his students. “He’s an extremely compassionate guy,” said John G. Lynch Jr., who was Ariely’s Ph.D. advisor at Duke. “When he was at M.I.T., if he had money to support some post-doc students having a rough time, he’d hire them just to help them out.”

When he is not teaching a class in behavioral economics, Ariely is on the phone with colleagues and students with whom he is conducting experiments.

Few things rankle academics more than a fellow academic with a best-selling book. Ariely’s work, lauded by many in the field, has come under fire from outside and even within behavioral economics. In reviewing Ariely’s book for The New Republic, Alan Wolfe, a political science professor at Boston College, took Ariely to task for what he calls “selection bias” in conducting his experiments. By relying almost completely on research about students from M.I.T. and a couple of other campuses, Ariely is making unfounded assumptions about the general population, Wolfe wrote.

“Ariely is obligated to remind his readers, most of whom are neither psychologists nor economists, of the problems of selection bias that follow from his over-reliance on students as subjects. But he fails to do so. In fact, he does the opposite, he generalizes from M.I.T. classrooms to humankind as a whole and with abandon,” Wolfe wrote. “This might be called the technique of the Big Slip, gliding imperceptibly from a controlled and artificial experiment to a breathtaking generalization about matters that have puzzled philosophers and theologians through the ages. It makes for entertaining reading. Alas, it tells us little about the kind of creatures we are.”

This naysaying about the value of his work has become a nagging and seemingly ever-present fact of Ariely’s life. “The rational Chicago economists don’t think what we’re doing is very useful,” he said. “When I present a talk in the department of economics, there are people who stop me every 90 seconds and tell me I’m an idiot. This is fine. It’s academic debate and they can have their opinion, I can have mine. I try to convince them and I don’t take it personally.”

Academic disagreements, of course, are not unusual and Ariely, though he dis-
dains the personal attacks, is unmoved by the controversy. He believes a degree in psychology is more valuable than an economics degree and there is demonstrable value in illuminating what is wrong with economic thinking while providing lessons in how to change damaging behavior. Because he opted to publish a popular, mass-market book rather than an academic tome, Ariely feels the debate has moved beyond academia into the public domain. “In some sense, we are trying to bypass the economists, and we’re doing that rather well,” he said.

He has also heard Wolfe’s criticism of his experimental procedures and stands by his conviction that his experiments on students accurately reflect behavioral tendencies across the general population. People are people and characteristics like maturity, experience and wisdom do not negate human tendencies.

“The belief in economic academic circles, as well as on the street, was that these experiments were cute and nice but these are students, so clearly all these irrationalities will disappear when these people get into real jobs and are making big decisions for lots of money and work in the competitive environment of the market,” Ariely said. The economic crisis strongly suggests otherwise, he said.

Ariely writes that he is a proponent of making use of all tools that allow a problem to be addressed “with the dispassion of science.” He continues, “We should explore different hypotheses and possible mechanisms and submit them to rigorous empirical testing.” In a perfect world, no public policy would be implemented without the scrutiny of a panel of experts from many disciplines and testing of the plan, he believes.

As an empiricist and an agnostic, Ariely says he is not beholden to any one doctrine. Economists, like theologians, have set beliefs and build their theoretical models around the idea that people are essentially rational, Ariely said. He is willing to embrace whatever the empirical evidence reveals, whether the results are rational or irrational. Finding room for the gray area that is human behavior is essential, he said. It is reckless to assume that any discipline has all the answers.

It is not that traditional economics is wrong, according to Ariely. “It’s just that it’s not perfectly right,” he said. “As a psychologist, I would never say every moment in psychology perfectly describes human behavior. It is capturing some essence of human behavior. Economics is the same. The difficulty is that economists, unlike other people, don’t have the humility. The way economics presents itself to the outside world is ‘We have the answers!’ And that’s the dangerous part.”

As behaviorists gain more credibility, their influence is on the rise. Several of President Obama’s top advisors, including Peter R. Orszag, the director of the Office of Management and Budget, and Austan Goolsbee, a chief White House economic advisor, hail from the behavioral economics camp. Economics is under fire on a number of fronts.

Paul Krugman, a Nobel Prize-winning economist and columnist for The New York Times, wrote about the economics profession’s failure to anticipate the financial crisis and what that revealed about its failings in an article entitled “How Did Economists Get It So Wrong?” in The New York Times Magazine. Of his colleagues in economics, Krugman wrote, “They were so enamored of the elegance of their models and the consistency of their logic that they had come to believe that assumptions that were originally adopted merely as tools (perfectly rational individuals, efficient markets) by Milton Friedman’s generation were so sacrosanct that economics wasn’t economics without them.”

Including irrationality in the debate has become a requirement for many economists.

“Economists will have to learn to live with messiness,” Krugman concluded.

If anyone is comfortable with messiness, it is Ariely. He calls himself a “social hacker” and seeks fixes to complex problems. How about a nonprofit bank run by an individual making $500,000 who

**FINDING** room for the gray area that is human behavior is essential, he said. It is reckless to assume that any discipline has all the answers.
One fifth of the world’s GDP comes out of the top 10 cities in the world.\(^5\)

In the next 14 years, the world will increase by one billion people — that is equivalent of adding the population of Dubai to the world map every 11 days.\(^4\)

![Image](image1.png)

On the Economy

“The world has been reset. Today’s uncertainty feels like the ‘new normal.’ We will not return to the relative tranquility of the pre-crisis world. Growth will be harder to come by, trends will be more volatile and constituent voices will be louder.”\(^6\)

— Jeffrey Immelt, chairman and CEO of GE

“Global economic growth requires the services of big financial firms. It also requires that big financial firms be allowed to fail.”\(^7\)

— Jamie Dimon, chairman and chief executive of JPMorgan Chase.

The United States federal deficit is projected to reach \$20.3 trillion in 2020 — that’s the equivalent of more than \$65,000 for every man, woman and child in the United States.\(^8\)

![Image](image2.png)

The top 10 in-demand technology jobs did not exist in 2004.\(^2\)

In the next five years, more than 200 new airports will be built in Asia Pacific, and 140,000 hotel rooms will be added.\(^1\)

Years it took to reach a market audience of 50 million:

Radio: 38 years

TV: 14 years

iPod: 3 years

Facebook: 2 years\(^3\)

We’ve scoured the globe to bring you the latest opinions, insights and hot-button issues percolating from the executive suite and delivered from some of today’s foremost thought leaders.

Top: Paul Wernickich Jr. and istockphoto. Bottom: JT Morrow
ON LEADERSHIP

“In my view a board of directors of a huge financial institution is derelict if it does not insist that its CEO bear full responsibility for risk control. If he’s incapable of handling that job, he should look for other employment.”

— Warren Buffet, CEO of Berkshire Hathaway

According to Korn/Ferry’s 34th Annual Board of Directors Study of Fortune 1000 organizations, 84% believe the importance of having a CEO succession plan in place has increased. However, the sad truth is that only about half of all boards have a succession plan.

Research by PricewaterhouseCoopers has found that although the best organizations pick at least two possible successors for each key position, in practice only 40% of roles are filled by those identified for promotion.

By country, confidence in leadership is highest in India, followed by the United States, Canada and Australia, according to the 2010 Korn/Ferry Confidence in Leadership Index.

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ON THE LABOR MARKET

“The basic message today is that with small business — which is the primary source of jobs — we need to figure out the loan problem. The banks aren’t really lending to them and anything that the government can do to accelerate that, needs to happen right now.”

— Eric Schmidt, CEO of Google

The U.S. economy will need 7.6 plus years of hyper job creation (2.2 million jobs per year) to replace all of the jobs eliminated in this recession. Based on that unrealistic job growth projection, it would still take until 2017 to get back to the 5% U.S. unemployment rate experienced prior to the recession.

The 25% of India’s population with the highest IQs is greater than the total population of the United States — India has more honors kids than America has kids.
Olli-Pekka Kallasvuo is both passionate and humble.

He’s passionate about his company and his people, and humble about himself and his accomplishments. He even jokes that as chief executive he lacks charisma. And yet, Kallasvuo has provided leadership and a guiding hand during nearly every phase of Nokia’s historic transformation from industrial company, producing a varied assortment of goods ranging from electrical cables to bicycle tires and boots, into the mobile telecommunications industry.
During the course of Kallasvuo's career, Nokia shed its nontelecommunications businesses, invested in forefront technologies, and eventually changed its entire focus to mobile technologies and services. While that course may have been risky, it succeeded in transforming Nokia into the world’s largest mobile telecommunications producer, measured by market share, with more than $50 billion in revenue, 123,000 employees, a global footprint and one of the world’s most respected brands. Nokia is as well known in Rwanda, India and Sri Lanka as it is in the European Union, Latin America and the United States.

Trained as a lawyer, Kallasvuo joined Nokia as corporate counsel in 1980, when the firm was just beginning its historic transformation. Although he says he is not a numbers person, Kallasvuo became Nokia’s chief financial officer in 1992, after succeeding in a number of strategic and financial roles. Among his positions, Kallasvuo served in 1997-98 as corporate executive vice president for the Americas. In 2006, Kallasvuo assumed his current role. He is also chairman of the board of Nokia Siemens Networks, a joint venture of Nokia and Siemens.

The discussion on leadership that follows took place between Kallasvuo and Gary Burnison, chief executive of Korn/Ferry International, at Nokia’s offices in White Plains, N.Y.

Burnison: You lead a global company with 125,000 people. As chief executive, how do you make sure the firm’s values cascade down through the entire organization?

Kallasvuo: Or rather cascade up. We have a set of the values. These are the values that anyone can read. But the words are not important. The question is, What do they mean to us? The last time we looked at our values, we asked, Are we O.K. with them? So we arranged something that we called Nokia Cafes — which were meetings in different parts of the world. These were opportunities for employees to get together and start discussions about the values of the company. We had something like 25 of these cafes. After they were over, representatives from these meetings went to a regional meeting, and the discussions continued. These people were not appointed by management. These were people who just stood up, volunteered. We then had a final meeting in Helsinki, our headquarters, for two days. There were about 45 people there who were passionate about our values and wanted to discuss them. They came representing their countries, and they spent two days together. In the afternoon of the second day, I joined them in the discussion. The people had a lot of emotion, a lot of passion. I went to the meeting, not to approve or disapprove of anything. But I could sense the passion, energy and commitment they had as they explained how they got to where they were and what it all meant.

In this meeting, I realized I didn’t really even have the option to say no. It was like an “aha” moment! It was as if a monster had been unleashed, but in a positive sense. The people and the process enabled employees to come up with values and what they meant. There was one item that I, myself, did not like that much, but that’s how it goes! After this, we let everybody know where we were in the process and in our thinking. Then we had a 72-hour long Internet discussion, which took place on a continuous basis. Management was putting in their contributions and discussing what the values meant to us. And out of 60,000 people in this part of the company, 10,000 participated in the discussion! So, when it comes to values, it was not only the outcome, it was also the process that made people buy into it.

So you view it not as cascading down, but as the organization’s values and culture cascading up.

Kallasvuo: Yes, cascading up. And it makes you quite exposed. You see, I realized I cannot call it off. This is it, whether I like it or not. And, of course, in truth the values that were arrived at are very much in line with our earlier thinking. They changed a bit. But the important part was that people had the possibility to express themselves. You really cannot simply order a change in culture! It’s not like, “We have been going here and now we are going there.” Unless you explain why — and it needs to be credible and the rationale needs to be there — you can’t get away with issuing an order. In the current environment, with people having discussion forums and blogs, you have to have the kind of credibility that comes from explaining why.

Do you consider yourself a leader?

Kallasvuo: I do not consider myself a leader, but I do like leading people. I like the exposure as well. I like it because you really have to put yourself into it and you have to stand out. You have to, as I say, expose yourself in a way. To me, the most important leadership word is courage.

Why courage and not, say, confidence?

Kallasvuo: Confidence is one-dimensional, but courage is more. I say that because as a leader you have to be at some ease with the possibility that you fail. People need to understand that when a risk has been taken, the leader has decided to take that risk. They need to understand
I think it has helped us a lot that what we are doing is helping people, especially in the emerging markets where mobile communication has changed people’s lives, in a very practical manner.

why it has been taken. If they do, then people will follow you. Taking risks requires courage.

Are you thinking about personal failure or corporate failure?
Kallasvu: They go hand in hand. But I was just now referring to personal failure. You have to be at ease with failing personally.

I agree with you wholeheartedly.
Kallasvu: If you don’t have that, you start playing it safe. People notice that, and they won’t follow you. You have to know what you are doing. But you have to have the courage to take risks and to be at ease with uncertainty and with failure as well.

In my view, failure is a good thing — as long as you learn from it.
Kallasvu: If you don’t fail, you are not doing what you are supposed to do. Failure is always there. But, on the other hand, you better not fail too often.

It must be quite exciting to lead such a dynamic company as Nokia. Do you ever wake up in the morning and pinch yourself that you’re the chief executive?
Kallasvu: No. I don’t. Maybe it’s too mundane. You go to work, you work hard, have meetings and do things that aren’t particularly wonderful in that way. But for me, the wonderful part is the people part of what I do and also learning new things. I love having the possibility of getting excited, and I am testing myself almost on a weekly basis. Am I excited? Is the stuff we are doing — the possibilities we are pursuing — exciting on a company level and on a personal level? From that kind of excitement you get the energy. If you lose your ability to get excited, people will notice.

What do you think your employees want? Money is of course important. But my sense is that people really want to be part of a journey, they want to be stimulated, they want to grow, they want to be part of a winning team. Do you agree with that, or do you think people are motivated by other things?
Kallasvu: People want to be part of a winning team, and people also want to have a sense of belonging. They want that very much. They want to know that they belong to a team and that their work is important. Work takes so much of our time. So we need to have those dimensions as well — that sense of belonging, that sense of purpose. In fact, I think it has helped us a lot that what we are doing helps people, especially in the emerging markets where mobile communication has changed people’s lives in a very practical manner. People like to feel that they do help others.

We are doing that as a business, of course, but that sense of purpose, in our case, has been very important. As a result, people think “Connecting People” has been wonderful as our corporate slogan. There is a positive dimension to it. Because it says — if you read it right — that connecting people is important to us and that we are providing that connection. This sense of purpose has helped us a lot. People who have never heard a dial tone and have their first communication device in their pocket, they can now help themselves. Take India as an example. India is a self-employed economy. Think what wonderful benefits mobile communication has brought to India’s carpenters and gardeners, and to people who have one-person businesses. Or think about someone who is living three days from a doctor in Rwanda. The possibility of telephoning a doctor when a child is sick, as opposed to traveling three days, is very big. Our people talk about this a lot. It has helped in our case. And it gives our people a real sense of purpose.
So, would you say that having a sense of common purpose and a vision for the company is important to what you do every day?

Kallasvuo: Yes. But I think it’s more than that too. People need vision and they need direction. But they also need concrete action. They need victories. They want to have the possibility to celebrate. Vision alone is not enough.

People need successful execution — is that what you are saying?

Kallasvuo: Yes. People need to see the execution. They need to see progress.

How do you do that?

Kallasvuo: There is no shortcut. Really doing it, and then communicating it, is what it takes. Telling them, “This is what we did this month and this is where we have made progress.” And also telling them, “This is where we have not made progress.” The granularity of the information people want and need is now much, much more than in the past. People are blogging and on the Internet. They are discussing everything.

When I was younger, people within the company thought that there were some things that we should not talk about to everybody. But now, with blogging and our global communication culture, everything is discussed openly. And everything is very transparent. If a product is late, people start blogging about that. It’s not just people in R&D who know about it. Everyone knows. Hence, the granularity of information that people need, for good or bad, is much greater now. You don’t get away with, “O.K., we going to go this way now; please follow us.” You need to give them much more, and sometimes doing that is really demanding.

Do you think it’s positive that people are so closely connected?

Kallasvuo: Yes, of course. I think it’s great. But I also think that sometimes it’s a double-edged sword, because sometimes people don’t really know everything and the wrong conclusions are easily drawn.

I’ll give you an example of what I mean. Last year, for the first time in the company — since we have been predominately a hardware company — we started measuring the number of active users of services that we provide. We targeted that we wanted to have 80 million users by the end of 2009. Why 80 million? Because I felt we needed a number. Whether it was 70 million or 90 million doesn’t really matter that much at this point in time. We needed a number so that people could rally around it. Then what we decided to do was: let’s make it visible to everybody, on a weekly basis. Let’s put it as an incentive target, even though not everybody can have an impact on it. Let’s expose ourselves openly in a way that everybody knows, although if you say 80 million and get only 35 million, it’s not going to be very good for morale. So, we put monitors up in our offices to see
how it was going on a weekly basis. I was really nervous about that, because this can really backfire. And, as I was leaving the office one night, they were putting up the monitors and I saw somebody working on one, a communications person. I said to that person, “I really hope this will work.” And, he said, “No, problem. We will have it by the morning!” He thought I was talking about the monitor! So you need to communicate clearly, which takes effort. We made our target, and it was a happy ending. But you need to expose yourself as a leader, because people need more than just a direction. They need to know how they are doing. They need to see their progress. That’s my feeling.

**In your industry, the product life cycles are very short. How do you keep up with all of the changes that occur?**

KallasvuO: Yes, they are so short. The clock speed is very high. But there is more than one answer to your question. In fact, I have been thinking about it for a long time and I asked myself, Who were the typical people running companies in the past? In the 1930’s and 40’s, they were run mostly by manufacturing people. All the intelligence was inside the company. In the 1950’s, the person typically running a company had a different background: sales and marketing. Then what happened? Shareholder value came up and we had all these M.B.A.’s and finance people. Now, the business challenge is different. Think of all the information that is out in the marketplace, think about all the diversity that is in the marketplace, all the communication that is instantaneous and is constantly happening globally. The question is, How do you sense what is happening and then create products and services based on that sense? These challenges are different from the past. The intelligence is no longer on the inside. It is outside, and you need to sense that, especially if you are in a business where the clock speed is very fast or the cycle is very short. In those businesses, if you are six months late, you have lost one-third of the market if the life cycle is, say, 18 months. So the question is, How do you sense what’s happening globally? How do you understand people in different parts of the world? How do you conceptualize it and create solutions?

**Do you have people solely focused on this?**

KallasvuO: Yes. For example, we have anthropologists who travel to remote areas trying to understand how people are leading their lives. These are people who we don’t hear about for three weeks. They are somewhere in the jungle. And, of course, we have them in the urban areas as well. They are trying to find out what’s important, because everything changes so quickly. This is a major challenge and a major opportunity as well.

**And this translates into products, like smartphones, and tells you where they should be headed?**

KallasvuO: My mobile phone used to be basically for voice communication. And then it started changing, and more and more functionality was added. The mobile device industry was quite good at capturing value from adjacent industries; as a result, things like the camera component were added. Nokia became the biggest camera manufacturer in the world. And now when you buy a mobile device, it comes with a camera included in the price.

O.K., this is simple so far. But now, people want more. They are in the stores and are saying, “I want a solution to my music needs.” So, now we introduce new concepts, like phones that come with music, and we make agreements with record labels and we say the music is yours for one year when you buy the product. So, this means that the device now comes with a camera, yes, but it also comes with music. Now from a business logic point of view, it’s the same. You get paid for that functionality. But, from a skills and capabilities point of view and a business dynamics point of view, it’s not the same. One is a hardware component added to the device: a camera. The other is content and services, which is software, basically. So this means that new skills, new capabilities, new partners and new people are required. Going from being a hardware company to a company that’s also content- and services-driven is a major change. We have many people who are struggling with that.

**What’s the best leadership advice you’ve gotten in your career?**

KallasvuO: Fortunately, I’ve gotten a lot of good advice. But one that I have been thinking about is more like advice on a personal level. When I became the chief financial officer of Nokia in 1992, I was young and far too inexperienced and all the rest of it. But nevertheless, I was given the job. So, I was told that it’s very important to remember that you are not only a person or an individual. You are also a representative of a system or a corporation called “us.” Sometimes you might be saying, as a person, “That’s O.K.,” but as a leader in an important position, you have to step up in a different way. I was thinking about that recently because I am a private person.

I am too.

KallasvuO: And I realized that I cannot be so private any
more. I have a role and responsibility as a senior leader at the company, to present an example. I’ve really taken that to heart. It was very important and very good advice.

Are you saying that as a senior leader, it’s no longer good enough just to articulate the strategy or the company’s values? You now are the company, and you have to live its strategy and values too?

KALLASVUO: Exactly. That was something I hadn’t thought about. I was simply: I am the CFO. So it was very good advice.

How did you make the transition from being a numbers guy — the CFO — to a guy who is leading the business?

KALLASVUO: But I am not a numbers guy!

Before I became chief executive, I was the CFO of Korn/Ferry International and that is exactly what I said too. I am not a numbers guy!

KALLASVUO: Yes. It’s a paradox. I was CFO for many years, but I’m not really a numbers guy. I started as a lawyer. My problem was I was a bad lawyer because I was too interested in the business side of things. I would close one eye and sometimes two trying to find a business solution to an issue. I decided I would try to do something else. I got involved with strategy and finance and then became CFO. But I did it more as a strategy person than as an accountant.

When you were at university, did you ever think you would eventually lead such a large company?

KALLASVUO: No. I wanted to make a living and not disappoint my parents.

So how does someone become a leader?

KALLASVUO: I think you grow into it. I don’t believe there is one leadership style. There are certain qualities: you need to respect people, you have to be honest, and you have to have courage. But people lead in different ways. People are not alike. I’m not saying one type of a leader is good and another is bad. But just as you grow as a person, you grow as a leader too. And you learn when you are leading people. I’m sure there are some people who are natural leaders who have charisma or something similar that makes people follow them automatically. But that’s not me. So, you learn and you practice and you grow into your leadership role.

Do you think leadership is about charisma or authenticity?

KALLASVUO: I don’t have great charisma, so I have to say it’s the other! I have been saying this internally. When we hit difficult times — when the global economy was really suffering — I held these town hall meetings. And I said, quite often, that we all know how companies change. They change if there is a crisis or if they have a charismatic leader. Then I said, “Well, we have a crisis!” I think people took that very well. I had not been thinking about it. It came out automatically. I even saw people blogging about it in the audience. One blogger even said that line was priceless.

When you make decisions as a leader, you have to have a great deal of confidence that, at the end of the day, it’s your decision. Do you agree?

KALLASVUO: I would say courage and confidence, as I mentioned before. You need both, and they are not the same thing. But when you make decisions in a company like ours, you are typically not alone. Sometimes, of course, you need to step up and say, “This is my call.” But only sometimes.

In my view, making decisions is a team sport. So when we make decisions, we typically do it with the senior team. This company is so big and complex that if I started to make decisions on my own, it would be like shooting from the hip. I would make a lot of mistakes. Having said that, sometimes there are moments when you simply have to say, “This is what we do.” And sometimes that’s also what people want to hear. It’s quite interesting. Very often people say, “Oh, it’s difficult!” and someone says, “O.K., then, this is what we are going to do.” And, very often, after that, there is relief because a difficult matter has been decided. Then it’s, “Let’s move ahead!”

As the leader of Nokia, what’s your work-life balance like?

KALLASVUO: My children are out of the house. They are 28 and 25, and my wife is an experienced business person. So, she knows what I’m doing. She is not working actively now; mostly she does board assignments. But, frankly, my balance is not good and I’m O.K. with that. I’m completely O.K. with that. On this point, I say to people, “Don’t do as I am doing; do as I am telling you.” So, what I’m doing is O.K. with me and I’m fine with it. But typically people should have a good balance between work, family and themselves. People very often put themselves aside, and the balance becomes work and family. That’s not good either. You should take yourself into account too. The advice I have been trying to give is that you should have a triangle with work and family and with 25 percent of your time devoted to yourself.
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Double standards can end up costing a great deal of money.

The European Union has bent over backward to admit Greece — first to what was then the European Economic Community in 1981 and then to the eurozone. The union has bent over equally far in the other direction to keep Turkey out. The current calamity in Greece gives us only a foretaste of how much of a disaster all these contortions will prove to be.

It is easy to see why the European establishment bent itself out of shape. Greece is the fountainhead of European civilization: the inventor of democracy; the home of Plato and Aristotle, Homer and Aristophanes; a country whose ancient ruins set civilized hearts aflutter. For the leaders who created the European Union out of the rubble of the Second World War, Europe without Greece was as inconceivable as America without Philadelphia would have been for the founding fathers.
By contrast, Turkey is the very embodiment of the “other,” a word that conjures up images of barbarian hordes, war-related atrocities and enemies at the gates. Much of Turkey is in Asia Minor rather than Europe. Ottoman civilization owed more to the Middle East than to Greece and Rome. The Turks have a longstanding weakness for military dictatorship and brutal prisons. Europe’s hostility to Turkey reached the heights of parody when it came to religion: a European elite that was so hostile to Christianity that it refused to mention the term in its voluminous constitution suddenly discovered that it could not admit Turkey because it is not a Christian civilization.

Europe will be paying dearly for these double standards for years. Paying literally. Few people believe that the current $41 billion in loans will be anywhere near enough to stanch the bleeding in Athens. The Economist magazine calculates that even on the basis of optimistic assumptions, Greece will need 70 billion euros or more in long-term official loans over the next few years and that its debt burden will peak at 150 percent of G.D.P. in 2014. And paying politically. The Greek problem has caused the biggest rupture in the Franco-German alliance — the alliance at the very heart of Europe — for decades. It has also done huge damage to Europe’s reputation for sound economic management. That reputation has stood high since the introduction of the euro, one of the boldest experiments in monetary policy in history, a decade ago. But Greece’s ability to cook its books and run a deficit of 12 percent rather than the permitted 3 percent has undone the work of years.

This is a damning list, to be sure. Yet it still understates the damage that Europe’s double standards have done. The great debate between euro enthusiasts and euro sceptics has always been an argument about whether Europe is a bet on the future or the past. For euro enthusiasts, Europe is a bold bet on the future — an attempt to create a post-nationalist free trade zone that incorporates more than 300 million people. For euro sceptics, it is an exercise in nostalgia — a doomed bit to protect the European Eden from the advance of American-style capitalism. Europe’s willingness to bet on Greece rather than Turkey is the best evidence to date for the euro-sceptic view.

The Greek economy is one of the most feeble in the advanced world. The World Bank’s annual Doing Business survey ranked Greece 109th out of 183 economies, lower than a long list of underdeveloped countries. That global figure concealed some even more startling individual figures: Greece ranked 140th for ease of starting a business, 147th for ease of employing workers, and 154th for protecting investors. Trade union entitlements and labor militancy are so ingrained in Greece that the country’s prostitutes recently went on strike, to protest unlicensed competition from Russian and East European immigrants.

Greece does not even count as a first-world country when it comes to the quality of its management. Nicholas Bloom of Stanford University and John Van Renen of the London School of Economics have devoted a great deal of energy to producing an objective measure of the quality of management across the world. They put the United States and Germany in first and second place, respectively. They put Britain, France and Italy in the middle of the field. But Greece comes near the bottom — below Brazil and just about level with China and India.

This is an astonishing result for a high-wage country. But again it understates the extent of Greece’s problems. China and India are home to world-class companies like Huawei in China and Infosys in India as well as a mass of poor performers that drag the average down. Greece has almost no world-class firms. The economy is dominated by small low- or no-innovation firms. And the informal barriers to entry are so high that few people are becoming entrepreneurs. The annual Global Entrepreneurship Monitor research program ranks Greece as one of the world’s least entrepreneurial countries.

Greece’s withered private sector goes hand in hand with a bloated government sector. Last year, even as the world plunged into recession, Greece hired 29,000 public-sector workers to replace the 14,000 who retired. The government sucks up a disproportionate share of the country’s talent. Bright young Greeks still crave the security of a job in the civil service rather than the travails of a life in the private sector. It also smothers business under a heavy weight of taxes and regulations. Workers enjoy long holidays and absurdly early retirements. Civil servants are inefficient and frequently corrupt. Transparency International puts Greece 71st on its global clean-government index. The average Greek family pays nearly $2,000 a year in bribes.

If Greece is the weakest of the developed-world economies, Turkey is one of the strongest of the emerging-world champions, a country on its way up rather than its way down. The World Bank ranked Turkey as No. 73 in its Doing Business report, a result that puts it ahead of such emerging-market champions as India and China. Turkey is producing some regional giants like the Sabanci Group (which has annual sales of $12 billion) and Koç Holding (which controls more than 100 companies). It is also producing some exciting entrepreneurs, a striking number of them young women.

Turkey is certainly not Germany; agriculture still ac-
But Europe’s cowardly bet on Greece has had exactly the opposite effect, rewarding failure, punishing success and projecting a defensive, crouching, backward-looking image of the European Union. The Greeks were rewarded for their laxness with membership in a currency zone defined by a strong euro and rock-bottom interest rates. They responded by going on a decade-long spending binge, public as well as private, that left their economy even weaker. The Turks were punished for their willingness to reform with an avalanche of snubs and sneers. The French president, Nicolas Sarkozy, recently declared, “I do not believe that Turkey belongs to Europe for a simple reason: because it is in Asia Minor.”

Turkey has now been freed from its longstanding European fixation. A decade ago, young Turks were obsessed with membership in the European Union and distressed by its refusal to grant them full membership. Today, they treat it with a shrug. They are convinced that the future is being shaped elsewhere — in the emerging powers of India and China rather than in the Old World that clutched their old enemies, the Greeks, to its bosom. That is yet another of Europe’s losses in this whole sorry affair.

But Europe’s cowardly bet on Greece.

Adrian Wooldridge is co-author of several books and is the management editor for The Economist. He is based in London.
According to the authors of Clever (Harvard Business Publishing, 2009), the industrial economy of the 20th century is being replaced by the “clever” economy of the 21st century, and businesses that want to be at the forefront of their industries have to learn to bring out the best in the “clever” people they employ.

That can be done, according to the authors, Rob Goffee and Gareth Jones, by allowing what they call “clevers” a large degree of freedom, but not too much; by praising their accomplishments; by putting them under the direction of people whom they respect; by surrounding them with other clever people; by imposing a limited number of rules that make sense to them; by giving them direction without being overly prescriptive; by encouraging risk taking, but not too much; by allowing mistakes, but not too many; and by framing their work so that it has moral purpose.

The problem with the authors’ argument is that they never clearly define clever people or clever economy. At the outset, the authors, who are organizational experts affiliated with the London Business School, characterize clever people as “highly talented individuals with the potential to create disproportionate amounts of value from the resources that the organization makes available to them.” They then describe Will Wright, the creator of the electronic game SimCity, as an example of the quintessential...
The book serves a useful purpose by providing a sound prescription for how to foster creativity in employees.
When Harvard University officials thought about creating one of the first graduate schools of business early in the 20th century, they wrestled with whether business was a profession and whether it was properly a subject for study in the academy. The university’s leaders wondered whether business needed to have a code of ethics; what role ethics should play; and how to balance the practical skills required to conduct business with research and theory.

“Rethinking the M.B.A.: Business Education at a Crossroads” (Harvard Business School Publishing, 2010) by the Harvard Business School professors Srikant M. Datar and David A. Garvin and a research associate at the school, Patrick G. Cullen, makes clear that the issues of the place of ethics in business education and business education’s fit in the academy remain unresolved and that they play an enduring role in the debate on the future of the M.B.A.

According to the authors, graduate schools of business are no longer able to guarantee golden passports to top, high-paying jobs in finance, consulting and other industries to their graduates. So, these programs are at a crossroads.

To make their point, the authors provide a comprehensive accounting of the challenges facing business schools and the major criticisms of them. They describe in detail
The demand for M.B.A.’s is said to be eroding in part because many who would have sought M.B.A.’s in the past have decided that they can get what they want without them.

But, as morally satisfying as it is to conclude that what business schools need is more courses on ethics and leadership and more of a focus on serving the larger society, not just shareholders, it is not clear that making these changes is the solution to the practical problems that business schools face.

The factors that threaten the viability of business schools are different from the criticisms the authors enumerate. The authors cite no evidence that enrollments in traditional two-year M.B.A. programs are declining over all because those who might have been expected to apply are concerned that they will not be taught to maintain their integrity as business leaders. Rather, as noted above, the demand for M.B.A.’s is said to be eroding in part because many who would have sought M.B.A.’s in the past have decided that they can get what they want — multimillion dollar salaries in the case of would-be financial titans — without them. Those still seeking the credential to be considered for a job in management, meanwhile, can get it through alternative, less costly or more convenient or targeted programs — i.e., night, part-time, executive or other forms of master’s degrees.

There seems to be no reason to believe that teaching more about leadership and ethics would change this calculus for prospective applicants. This is likely to occur only if businesses decide they want different kinds of leaders than those they have today. But, there seems little indication of that. Granted, there are the responses of the business leaders whom the authors interviewed. But, their critiques of what business school students currently learn are likely to carry much less weight with prospective applicants than the continued rewarding of corporate executives who narrowly focus on their own and their shareholders’ well-being.

It may be that the next generation of business executives, trained in business schools that place a greater emphasis on leadership, ethics and broad societal interests, will be able to move business in the direction of assuming greater social responsibility. But, the question remains how business schools will continue to attract the numbers required to sustain themselves if they no longer can guarantee the golden passport.
The medium is still the message

by Joel Kurtzman

A few months ago, I conducted a social networking experiment.
To be honest, it did not really start out as an experiment; it just ended up as one.

The experiment went as follows. I placed on my Facebook page a link to a study I saw regarding new ways to measure risk. (Have I lost you yet?) As you might expect, I got zero replies from my Facebook friends.

Next, I posted a link to the Web site of an economist I like who did some very cool work. (Still there?) Not one person wrote on my wall.

Then, I put up a link to another study I found fascinating. The response was equally quiet.

Finally, to rouse my friends from the stupor into which I had sent them, I placed a note on my page that said, “Drove down the Pacific Coast Highway with the top down in the middle of winter. Isn’t California great?”

I got 12 replies and ended the experiment.

What was really interesting about my experience was that the postings I put on my Facebook page would normally be of interest to the nerdy group I hang out with in cyberspace. They like the topics in my postings, and they are interested in the work I was alerting them to. Not only that, but the people who have friended me electronically read and write blogs on the same topics as were discussed in these links. They just do not like to do it on Facebook.

The medium is still the message.

We have known for a very long time that different media produce different results in people’s minds. Decades ago, Marshall McLuhan, the grandfather of media studies, said that the black and white of print leads to a linear, logical way of thinking that tends to make people see the world in terms of, well, black and white.

TV is different, he said. It is cooler, fuzzier, less logical, and it portrays a world that is more nuanced, with shades of gray.

Much more recently, Sherry Turkle, a professor at the Massachusetts Institute of Technology, has shown that online technologies influence not only the way children think, but also the way they see themselves.

And why not? When you are playing World of Warcraft with 11 million of your closest friends, your state of mind has to be different from the person one seat over from you at Starbucks who is playing a hand of online bridge.

The kind of segmentation these new technologies make possible is far different from the kind developed by yesterday’s “Mad Men,” who were mostly concerned with people’s incomes and spending habits. That view of the market still carries weight even though social media produces shadings that are much more interesting.

Whereas I often feel I can not look at LinkedIn unless I am wearing a jacket and tie — it is the serious business Web site after all — what I learned from my experiment on Facebook was that it is inhabited by the denim-and-tee shirt crowd. (If you take that crowd, put them in the back seat of a taxi and tell them to post their musings on the Web, you have Twitter.) The point is, the people on these Web sites are the same; their mind-sets are not.

What all this means is that different social media allow marketers, employers, politicians, business leaders and managers to interact with people when their states of mind are most likely to produce the desired result.

What it also means is that the entire menu of media options needs to be looked at with sensitivity to its subtleties in order to make best use of its potential.

Too many pundits treat social media as if it were all the same. That is because they have not had the benefit of being snubbed by their Facebook friends. Even if the message is right, the medium might be wrong. These tools give a whole new meaning to the phrase “share of mind.”