How Will You Measure Your Life?

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A summary of the original text.

In this summary:

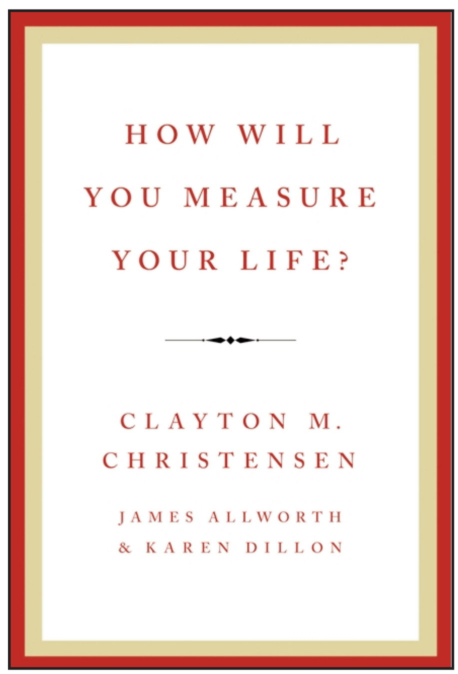
- ***Discover...***
  world-renowned innovation expert Clayton Christensen's guidelines for finding meaning and happiness in life.

- ***Apply...***
  lessons from some of the world's greatest businesses to gain incredible insights into the most challenging questions you face as an individual.

- ***Find...***
  happiness in your career by examining your priorities, focusing on opportunities, and dedicating resources — your time, money, and talent — to what is most important.

- ***Improve...***
  your relationships by investing in them before you need them, applying the concept of "jobs to be done" to your marriage, and refusing to outsource your children's capabilities .

- ***Avoid...***
  compromising your integrity — and stay out of jail — by defining your purpose in life, sticking to your principles, and making a commitment to live your purpose every day.



Every five years, Clayton Christensen and his peers gathered for a reunion at Harvard Business School. As a group, they clearly had much to celebrate: They had wonderful jobs, they had made great achievements, and some of them were financially successful beyond their wildest dreams. But behind the facade of professional success, Christensen observed, something was not right. Many of his peers were clearly unhappy. Christensen's friends were not only some of the brightest people he's known, but some of the most decent people, too. At graduation, they had plans and visions for what they would accomplish, not just in their careers, but in their personal lives as well.

Yet, at reunions, he realized that something had gone wrong for some of them along the way. Their personal relationships had begun to deteriorate, even as their professional prospects blossomed. For others, careers that began with great promise and reached the pinnacle of success had come crashing down.

For example, the Jeffrey Skilling he knew at HBS was smart, worked hard, and loved his family. Skilling went on to earn more than $100 million in a single year as Enron's CEO. But his personal life was not as successful: His first marriage ended in divorce and when his entire career unraveled spectacularly with his conviction on multiple federal felony charges related to Enron's financial collapse, it was clear that something had set him off in the wrong direction.

No one graduates from business school with a deliberate strategy to get divorced, lose touch with their children, or makes choices that land you in jail. Yet this is the exact strategy that too many people end up implementing.

Understanding what causes the problems that have trapped too many smart, decent people is important not just for those who have come off the path that they had planned to follow, but also for those whose lives are still on the right path — as well as those whose journeys are just beginning.

At HBS, Christensen teaches the MBA course called *Building and Sustaining a Successful Enterprise*. He and his students study theories regarding the job of general managers. These theories are statements of what *causes* things to happen — and why. The students put these theories on, like lenses, to examine a case about a company. They discuss what each of the theories reveals about why and how the problems and opportunities emerged in the company. Then they use the theories to predict what problems and opportunities are likely to occur in the future for that company, as well as what actions the managers will need to take to address them.

Then, on the last day of class, Christensen applies the management theories he has taught his students to the level of the individual. The goal is to explore not what students *hope* will happen to them, but rather what the theories *predict* will happen to them, as a result of different decisions and actions.

To help structure the discussion, Christensen writes the theories the students have studied on the chalkboard, and then writes three simple questions beside those theories:

1. How can I be sure that I will be successful and happy in my career?

2. How can I be sure that my relationships with my spouse, my children, and my extended family and close friends become an enduring source of happiness?

3. How can I live a life of integrity — and stay out of jail?

Year after year, Christensen has been stunned at how the theories of the course illuminate issues in his students' personal lives just as they do in the companies they have studied.

Solving the challenges in your own life requires a deep understanding of what causes what to happen. The theories that we will discuss will help you to do exactly that. They can sharpen the acuity with which you can examine and improve your own life, and they can help you to make good choices.

The three major parts of this summary will focus on answering the three questions:

- Part 1 focuses on finding happiness in your career.
- Part 2 focuses on finding happiness in your relationships.
- Part 3 concerns staying out of jail.

Part 1: Finding Happiness in Your Career

There are a determined few who never lose sight of aspiring to do something that's truly meaningful to them. But for many of us, as the years go by, we allow our dreams to be peeled away. We pick our jobs for the wrong reasons and then we settle for them. We begin to accept that it's not realistic to do something we truly love for a living.

But you need not resign yourself to this fate. You can experience the feeling of waking up every morning thinking how lucky you are to be doing what you're doing if you build a strategy to do exactly that.

At a basic level, a strategy is what you want to achieve and how you will get there. In the business world, this is the result of three influences:

1. What a company's priorities are.
2. How a company responds to opportunities and threats along the way.
3. How a company allocates its resources.

These things all continuously combine, to create and evolve a strategy.

This same strategy-making process is at work in every one of us as well. We have intentions for our careers. Against those intentions, opportunities and threats emerge that we haven't anticipated. How we allocate our resources — our time, talent, and energies — is how we determine the actual strategy of our lives.

So in the next three sections, we'll explore each of the three parts of strategy, in order to answer the first question, "How can I find happiness in my career?"

- First, we'll discuss priorities by examining what's important to you in your career.

- Second, we'll discuss how to best balance your plans to find something that you truly love doing with the opportunities and challenges that you never expected to arise in your life.

- Third, we'll focus on execution. The only way a strategy gets implemented is if you dedicate resources (your time, money, and talent) to it.

What Makes Us Tick?

The first part of the strategy process involves priorities. Many executives assume that the best way to motivate people to focus on priorities is to offer incentives for doing so, but is this really effective?

There are two broad camps about how the concepts of incentives and motivation relate to each other. In 1976, economists, Michael Jensen and William Meckling, published a paper that has been committed to memory by those in the first camp. The paper focused on a problem known as *incentive theory:* Why don't managers always behave in a way that is in the best interest of shareholders?

The root cause, as Jensen and Meckling saw it, is that people work in accordance with how you pay them. The takeaway was that you have to align the interests of executives with the interests of shareholders. That way, if the stock goes up, executives are compensated better, and it makes both shareholders and executives happy.

The drive toward top performance has been widely used as an argument for skyrocketing compensation under the guise of "aligning incentives." Many managers believe that when you need to convince people that they should do one thing and not another, you just need to pay them to do what you want them to do.

However, some of the hardest-working people on the planet are employed in nonprofits and charitable organizations. Some work in the most difficult conditions imaginable — disaster recovery zones or countries gripped by famine and flood. They earn a fraction of what they would if they were in the private sector. Yet it's rare to hear of managers of nonprofits complaining about getting their staff motivated.

How, then, do we explain what is motivating them if it is not money?

There is a second school of thought — called *motivation theory* — that turns the incentive theory on its head. It acknowledges that you can pay people to do what you want — over and over again. But *incentives* are not the same as *motivation*. True motivation is getting people to do something because *they want* to do it. This type of motivation continues, in good times and in bad.

Looking deeper into the role of money in motivation, Frederick Herzberg, probably one of the most incisive writers on the topic of motivation theory, distinguishes between two different types of factors:

1. Hygiene factors
2. Motivation factors

Hygiene factors are the elements of work that, if not done right, will cause us to be dissatisfied. Hygiene factors are things like status, compensation, job security, work conditions, company policies, and supervisory practices. You have to address and fix bad hygiene to ensure that you are not dissatisfied in your work. But, even if you improve the hygiene factors of your job, you're not going to love it. At best, you just won't hate it anymore.

Herzberg asserts that compensation is a hygiene factor, not a motivator. You need to get it right. But all you can aspire to is that employees will not be mad at each other and the company because of compensation.

So, what are the things that will truly, deeply satisfy us, the factors that will cause us to love our jobs?

Motivators include challenging work, recognition, responsibility, and personal growth. Feelings that you are making a meaningful contribution to work arise from *intrinsic* conditions of the work itself. Motivation is much more about what's inside of you, and inside of your work.

If you get motivators at work, Herzberg's theory suggests, you're going to love your job — even if you're not making piles of money. You're going to be motivated.

Many of Christensen's classmates had chosen careers using hygiene factors, particularly income, as the primary criteria. But even as their incomes swelled, they realized they resented the jobs they had taken, and they had become trapped by their expensive lifestyles.

People who truly love what they do and who think their work is meaningful have a distinct advantage when they arrive at work every day. They throw their best effort into their jobs, and it makes them very good at what they do. This, in turn, can mean they get paid well; careers that are filled with motivators are often correlated with financial rewards.

The theory of motivation suggests you need to ask yourself a different set of questions than most of us are used to asking.

- Is this work meaningful to me?
- Is this job going to give me a chance to develop?
- Am I going to learn new things?
- Will I have an opportunity for recognition and achievement?
- Am I going to be given responsibility?

These are the things that will truly motivate you. Once you get this right, the other aspects of your job will fade in importance.

The Balance of Calculation and Serendipity

Understanding what makes us tick is a critical step on the path to fulfillment. But that's only half the battle. You actually have to find a career that both motivates you and satisfies the hygiene factors.

But it isn't that simple. You have to balance the pursuit of aspirations and goals with taking advantage of opportunities. Managing this part of the strategy process is often the difference between success and failure for companies; it's true for our careers, too.

Options for your strategy spring from two very different sources:

The first source is anticipated opportunities — the opportunities that you can see and choose to pursue. When you put into place a plan focused on these anticipated opportunities, you are pursuing a *deliberate* strategy.

The second source of options is unanticipated — usually a cocktail of problems and opportunities that emerges while you are trying to implement the deliberate plan or strategy that you have decided upon.

In business, unanticipated problems and opportunities essentially fight the deliberate strategy for the attention and capital of the management and employees. The company has to decide whether to stick with the original plan, modify it, or replace it with one of the alternatives that arises. Often, a modified strategy coalesces from day-to-day decisions to pursue unanticipated opportunities and resolve unanticipated problems. When strategy forms in this way, it is known as *emergent* strategy.

When the company's leaders make a clear decision to pursue the new direction, the *emergent* strategy becomes the new *deliberate* strategy.

Understanding that strategy is made up of these two elements, and that your circumstances dictate which approach is best, will better enable you to sort through the choices that your career will constantly present.

If you have found an outlet in your career that provides both the requisite hygiene factors and motivators, then a deliberate approach makes sense. Your aspirations should be clear, and you know that they are worth striving for. Rather than worrying about adjusting to unexpected opportunities, your frame of mind should be focused on how best to achieve the goals that you have deliberately set.

But if you haven't reached the point of finding a career that does this for you, then, like a new company finding its way, you need to be emergent. Experiment, and as you learn from each experience, adjust. Then iterate quickly. Keep going through this process until your strategy begins to click. When you get it right, you'll know.

Your Strategy Is Not What You Say It Is

You can talk all you want about having a strategy for your life, understanding motivation, and balancing aspirations with unanticipated opportunities. But ultimately, this means nothing if you do not align those with where you actually expend your time, money, and energy.

As you're living your life from day to day, how do you make sure that you're heading in the right direction? Watch where your resources flow. If they're not supporting the strategy you've chosen, then you're not implementing that strategy at all.

Resource allocation is the last component in the strategy process. It determines which deliberate and emergent initiatives get funded and implemented, and which are denied resources.

If you study the root causes of business disasters, you'll find that many companies' decision-making systems are designed to steer investments to initiatives that offer immediate returns, while shortchanging investments in initiatives that are crucial to their long-term strategies.

Here is a way to frame the investments that we make in the strategy that becomes our lives: We have resources — which include personal time, energy, talent, and wealth — and we are using them to try to grow several "businesses" in our personal lives. These include having a rewarding relationship with our spouse or significant other; raising great children; succeeding in our careers; contributing to our church or community; and so on. Unfortunately, our resources are limited and these businesses are competing for them. It's exactly the same problem that a corporation has.

People ask for your time and energy every day, and even if you are focused on what's important to you, it's still difficult to know which are the right choices. If you have an extra ounce of energy or a spare 30 minutes, there are a lot of people pushing you to spend them here rather than there. Sometimes that's good: Opportunities that you never anticipated emerge.

But other times, those opportunities can take you far off-course. The danger for high-achieving people is that they'll unconsciously allocate their resources to activities that yield the most immediate, tangible accomplishments. This is often in their careers, as this domain of their life provides the most concrete evidence that they are moving forward. They ship a product, finish a design, help a patient, close a sale, teach a class, win a case, publish a paper, get paid, get promoted. While they may believe that their family is deeply important to them, they actually allocate fewer and fewer resources to the things that they would say matter most.

A strategy is created through hundreds of everyday decisions. With every moment of your time, every decision about how you spend your energy and your money, you are making a statement about what really matters to you. You can talk all you want about having a clear purpose and strategy for your life, but ultimately this means nothing if you are not investing the resources you have in a way that is consistent with your strategy.

Part 2: Finding Happiness in Your Relationships

So far, we have focused on how to use the strategy process to find fulfillment in your career. Your career priorities — the motivators that will make you happy at work — are simply one part of a broader set of priorities in your life, priorities that include your family, your friends, your faith, your health, and so on.

Similarly, the way you balance your plans with unanticipated opportunities, and allocate your resources — your time and energy — does not stop when you walk out the door of your office. You're making decisions about these every moment of your life. You will be constantly pressured, both at home and at work, to give people and projects your attention.

How do you decide who gets what? You have to make sure that you allocate your resources in a way that is consistent with your priorities. You have to make sure that your own measures of success are aligned with your most important concern. You have to overcome the natural tendency to focus on the short term at the expense of the long term.

The relationships you have with family and close friends are going to be the most important sources of happiness in your life. But you have to be careful. When it seems like everything at home is going well, you will be lulled into believing that you can put your investments in these relationships onto the back burner. That would be an enormous mistake.

By the time serious problems arise in those relationships, it often is too late to repair them. This means that the time when it is most important to invest in building strong families and close friendships is when it appears as if it's not necessary.

The theory of "good money and bad money" offers insight into this situation.

At a basic level, there are two goals investors have when they put money into a company: growth and profitability. Neither is easy.

Professor Amar Bhide showed in his book, *The Origin and Evolution of New Businesses,* that 93 percent of all companies that ultimately become successful had to abandon their original strategy because it proved not to be viable. In other words, successful companies don't succeed because they have the right strategy at the beginning, but because they have money left over after the original strategy fails, so that they can try another approach. Most of those that fail, in contrast, spend all their money on their original strategy — which is usually wrong.

When the winning strategy is not yet clear in the initial stages of a new business, good money from investors needs to be *patient* for growth but *impatient* for profit. The new company must figure out a viable strategy as fast as and with as little investment as possible — so that the entrepreneurs don't spend a lot of money in pursuit of the wrong strategy.

Given that 93 percent of companies that ended up being successful had to change their initial strategy, any capital that demands that the early company become very big, very fast, will almost always drive the business off a cliff instead. A big company will burn through money much faster, and a big organization is much harder to change than a small one. That is why capital that seeks growth before profits is *bad money.*

For most companies, there will come a day of reckoning, a day when the company's main business stumbles or stops growing and new sources of revenue are needed quickly. If a company has ignored investing in new businesses until it *needs* those new sources of revenue and profits, it's already too late.

It can be all too easy to default to a bad money approach in our lives, too. Many of us thrive under the pressure of a demanding job, and we start to think our jobs require all our attention. We call in to work from remote vacation spots. In fact, we may never take all the vacation days we're allowed; there's simply too much work to be done.

We find ourselves forgetting to return e-mails and phone calls from our friends and our families; neglecting birthdays and other celebrations that used to be important to us.

Unfortunately, the same consequences that businesses face for failing to invest in the future apply to us, too. While most of us do have a deliberate strategy of creating deep, love-filled relationships with members of our family and our friends, in reality we invest in a strategy for our lives that we never would have aspired to: having shallow friendships with many people, but deep friendships with none; becoming divorced, sometimes repeatedly; and having children who feel alienated from us within our own homes, or who are raised by a stepparent sometimes thousands of miles away.

People in their later years of life often lament that they didn't keep in better touch with friends and relatives who once mattered profoundly to them. The consequences of letting that happen can be enormous. Too many people have had to walk through a health struggle or a divorce or a job loss alone — with nobody to provide a sounding board or other means of support.

If you defer investing your time and energy in your personal relationships until you see that you need to, chances are it will already be too late. The only way to have those relationships bear fruit in your life is to invest long before you need them.

What Job Do You Need Done?

Many products fail because companies develop them from the wrong perspective. Companies focus too much on what they want to sell their customers, rather than what those customers really need. What's missing is empathy: A deep understanding of what problems consumers are trying to solve.

The same is true in our relationships: We go into them thinking about what we want rather than what is important to the other person. Changing your perspective is a powerful way to deepen your relationships.

Through Christensen's research on innovation for the past two decades, he and his colleagues have developed a theory about marketing and product development that they call "the job to be done." The insight behind this way of thinking is that what *causes* us to buy a product or service is that we actually hire products to do jobs for us.

What does this mean? We don't go through life conforming to particular demographic segments: Nobody buys a product because he is an 18- to 35-year-old white male getting a college degree. Instead, we find that some job has arisen in our lives that we need to do, and we then find some way to get it done.

If a company has developed a product or service to do the job well, we buy, or "hire" it, to do the job. The mechanism that *causes* us to buy a product is, "I have a job I need to get done, and this is going to help me do it." Every successful product or service, either explicitly or implicitly, was structured around a job to be done.

Similarly, if you work to understand what job you are being hired to do, both professionally and in your personal life, the payoff will be enormous. In fact, it is here that the theory yields the most insight, simply because one of the most important jobs you'll ever be hired to do is to be a spouse. Getting this right is critical to sustaining a happy marriage.

To economize on words, we'll use feminine pronouns and adjectives for the spouse, but the concepts apply equally to everyone.

You and your wife can't always articulate what the fundamental jobs are that *each of you* are personally trying to do, let alone articulate the fundamental jobs that your wife has, for which she might hire a husband to get done. Understanding the job requires the critical ingredients of intuition and empathy. You have to be able to put yourself in her shoes. More important, the jobs that your spouse is trying to do are often *very* different from the jobs that you *think* she should want to do.

Ironically, it is for this reason that many unhappy marriages are often built upon selflessness.

But the selflessness is based on the partners giving each other things that they want to give, and which they have decided that their partner ought to want.

It is easy for any of us to make assumptions about what our spouse might want, rather than work hard to understand the job to be done in her life.

If we studied marriage through the job-to-be-done lens, we would find that the husbands and wives who are most loyal to each other are those who have figured out the jobs that their partner needs to be done — and then they do the job reliably and well. Divorce, on the other hand, often has its roots when one frames marriage only in terms of whether she is giving me what I want. If she isn't, then I dispense with her, and find someone else who will.

Thinking about your relationships from the perspective of the *job to be done* is the best way to understand what's important to the people who mean the most to you. It allows you to develop true empathy. Asking yourself "What job does my spouse most need me to do?" gives you the ability to think about it in the right unit of analysis.

But you have to go beyond understanding what job your spouse needs you to do. You have to do that job. You'll have to devote your time and energy to the effort, be willing to suppress your own priorities and desires, and focus on doing what is required to make the other person happy.

Outsourcing Your Children's Capabilities

We all recognize the importance of giving our kids the best opportunities. Each new generation of parents seems to focus even more on creating possibilities for their children that they themselves never had. With the best of intentions, we hand our children off to a myriad of coaches and tutors to provide them with enriching experiences — thinking that will best prepare our kids for the future. But helping our children in this way can come at a high cost

In many ways, this situation parallels the risks companies take in outsourcing one activity after another to low-cost providers. How can businesses or individuals know if they are outsourcing their way to mediocrity?

The answer lies in understanding the concept of "capabilities." You need to understand what capabilities are, and which of them will be critical to the future, to know which capabilities are important to keep in-house and which matter less.

A company's capabilities fall into one of three buckets:

1. Resources
2. Processes
3. Priorities

Together, these capabilities are crucial in order to assess what a company can and cannot accomplish.

For example, the history of outsourcing in the American semiconductor industry chronicles the woes that befall companies that blindly adhere to outsourcing. At the outset, it made sense to outsource the simplest of the steps entailed in making semiconductor products to Chinese and Taiwanese suppliers. The American semiconductor companies thought they were safe, as they retained the more complex and profitable steps, such as product design.

But the Asian suppliers strove to keep moving up-market, fabricating and assembling ever more sophisticated products. Now the tables have turned. At the beginning, American companies outsourced simple things to drive costs down and get assets off their balance sheets. Each of these decisions by themselves seemed to make sense. Now, however, they must outsource sophisticated products because they can no longer make them.

The theory of capabilities gives companies the framework to determine when outsourcing makes sense, and when it does not. There are two important considerations.

- First, you must take a *dynamic* view of your suppliers' capabilities. Assume that they can and will change. You should not focus on what the suppliers are doing now, but, rather, focus on what they are striving to be able to do in the future.

- Second, you must figure out what capabilities you will need to succeed in the future. These *must* stay in-house — otherwise, you are handing over the future of your business.

Understanding the power and importance of capabilities can make the difference between a good CEO and a mediocre one.

If you were asked to turn that lens closer to home, could you do it? What are your capabilities? What about your family's?

The Resources, Processes, and Priorities model of capabilities can help us gauge what our children will need to be able to do, given the types of challenges and problems that we know they will confront in their future.

- *Resources* include the financial and material resources the child has been given or has earned, his time and energy, what he knows, what his talents are, what relationships he has built, and what he has learned from the past.

- *Processes* are what the child does with the resources he has, to accomplish and create new things for himself. These include the way he thinks, how he asks insightful questions, how and whether he can solve problems of various types, how he works with others, and so on.

- *Priorities* determine how the child will make decisions. Which things in his life he will put to the top of the list, which he will procrastinate doing, and which he will have no interest in doing at all.

Unfortunately, many parents are removing the circumstances in which their children can develop processes. As a general rule, we have been outsourcing more and more of the work that, a generation ago, was done "internally" in the home. The idea that one might hire someone else to mow the lawn and shovel the snow at your home was unthinkable. There was so much work going on that children essentially worked for their parents.

Step by step, over the past 50 years, it has become cheaper and easier to outsource this work to professionals. In the absence of work, we've created a generation of parents who selflessly devote themselves to providing their children with enriching experiences. They lovingly cart children around to soccer, lacrosse, basketball, football, hockey, and baseball teams; dance, gymnastics, music, and Chinese lessons; send them on a semester abroad to London; and to so many camps that many children don't even have the time to get a part-time job in the summer.

When parents seem to be carting their children around to an endless array of activities in which the kids are not truly engaged, it should start to raise red flags. Are the children developing from these experiences the deep, important processes such as teamwork, entrepreneurship, and learning the value of preparation? Or are they just going along for the ride?

When we so heavily focus on providing our children with resources, we need to ask ourselves a new set of questions: Has my child developed the skill to develop better skills? The knowledge to develop deeper knowledge? The experience to learn from his experiences? These are the crucial differences between resources and processes — and the unanticipated residual of outsourcing.

When Dell outsourced a part of its business to a supplier called Asus, Dell gave Asus targets it needed to hit, and problems that it needed to solve. Asus then developed the processes for doing the work — even as Dell's processes for doing the same work atrophied. Asus honed and expanded those processes so that it could complete more and more sophisticated work. Dell didn't see that as it was focusing so heavily on resources and reducing its crucial processes, that it was actually undermining its future competitiveness.

Many parents are making the same mistake, flooding their children with resources — knowledge, skills, and experiences. We want our kids to get ahead, and believe that the opportunities and experiences we have provided for them will help them do exactly that. But the nature of these activities — experiences in which they're not deeply engaged and that don't really challenge them to do hard things — denies our children the opportunity to develop the processes they'll need to succeed in the future.

The end result of these good intentions for our children is that too few reach adulthood having been given the opportunity to shoulder responsibility and solve complicated problems for themselves and for others. Self-esteem doesn't come from abundant resources. It comes from achieving something important when it's hard to do.

There is something far more important at risk when we outsource too much of our lives: our values. You can probably recall moments from your own childhood when you picked up something important from your parents that they probably weren't aware they were sharing. Your parents most likely weren't thinking consciously about teaching you the right priorities at the time — but simply because they were there with you in those learning moments, those values became your values, too.

This means that when children are ready to learn, we need to be there. We need to display through our actions the priorities and values that we want our children to learn. Yet, in outsourcing much of the work that formerly filled our homes, we have created a void in our children's lives that often gets filled with activities in which we are not involved. As a result, when our children are ready to learn, it is often people whom we do not know or respect who are going to be there.

If you find yourself heading down a path of outsourcing more and more of your role as a parent, you will lose more and more of the precious opportunities to help your kids develop their values — which may be the most important capability of all. If you are not with them as they encounter challenges in their lives, then you are missing important opportunities to shape their priorities — and their lives.

The Invisible Hand Inside Your Family

As parents, we share a common worry: One day, our children are going to be faced with a tough decision . . . and we are not going to be there to make sure they do the right thing. All we can do is hope that somehow we've raised them well enough that they come to the right conclusion by themselves.

But here's the question: How do we make sure that happens?

It's not as simple as setting family rules and hoping for the best. Something more fundamental has to occur — and it has to happen years before the moment arises when our children are faced with that difficult choice. Their priorities need to be set correctly so they will know how to evaluate their options and make a good choice. The best tool we have to help our children do this is through the culture we build in our families.

Enterprises and families are very similar in this respect. Just like your parents wanted you to make good decisions, business leaders want to ensure that midlevel managers and employees everywhere in the company make the right choices every day without requiring constant supervision.

MIT's Edgar Schein, one of the world's leading scholars on organizational culture, defines culture as "a way of working together toward common goals that have been followed so frequently and so successfully that people don't even think about trying to do things another way. If a culture has formed, people will autonomously do what they need to do to be successful."

Those instincts aren't formed overnight. Rather, they are the result of shared learning — of employees working together to solve problems and figuring out what works. As long as the way they have chosen keeps working to solve a problem, the culture will coalesce and become an internal set of rules and guidelines that employees in the company will draw upon in making the choices ahead of them.

The advantage to this is that it causes an organization to become self-managing. Managers don't need to enforce the rules.

The parallels between a business and a family should be clear. Just like a manager who wants to count on employees using the right priorities to solve problems, parents want to set those priorities, too, so that family members will solve problems and confront dilemmas instinctively, whether or not the parents are there guiding or observing. Kids don't have to stop and think about what Mom or Dad wants them to do — they'll just go about it because their family culture has dictated, "This is the way our family behaves."

If you want your family to have a culture with a clear set of priorities for everyone to follow, then those priorities need to be proactively designed into the culture. If you want your family to have a culture of kindness, then the first time one of your kids approaches a problem where kindness is an option, help him choose it, and then help him succeed through kindness. Or if he doesn't choose it, call him on it and explain why he should have chosen differently.

Left unchecked long enough, allowing the wrong behavior "once or twice" quickly becomes the culture. As these behaviors embed themselves in a family culture, they become very hard to change.

It's not just about controlling bad behavior; it's about celebrating the good. What does your family value? Is it creativity? Hard work? Entrepreneurship? Generosity? Humility? What do the kids know they have to do that will get their parents to say, "Well done"?

This is what is so powerful about culture. It's like an autopilot. What is critical to understand is that for it to be an effective force, you have to properly program the autopilot — you have to build the culture that you want in your family.

Although it's difficult for a parent to always be consistent and remember to give your children positive feedback when they do something right, it's in these everyday interactions that your culture is being set — and once that happens, it's almost impossible to change.

Part 3: Staying Out of Jail

You can't anticipate all the circumstances and moral dilemmas you will find yourself in throughout your life. Yours will be different from everyone else's. A theory called "full versus marginal thinking" will help you answer our final question: How can I be sure I live a life of integrity, and stay out of jail?

Most of us think that the important ethical decisions in our lives will be delivered with a blinking red neon sign: *Caution, important decision ahead*. Almost everyone is confident that in those moments of truth, he or she will do the right thing.

The problem is, life seldom works that way. It comes with no warning signs. Instead, most of us will face a series of small, everyday decisions that rarely seem like they have high stakes attached. But over time, they can play out far more dramatically.

It happens exactly the same way in companies. No company deliberately sets out to let itself be overtaken by its competitors. Rather, they are seemingly innocuous decisions that were made years before that led them down that path.

In the late 1990s, Blockbuster dominated the movie rental industry. It had stores all over the country, a significant size advantage, and what appeared to be a stranglehold on the market. But Blockbuster only made money when a customer rented a movie, watched it quickly, and then returned it promptly, so that the clerk could rent the same DVD to different customers again and again.

To prod customers to return the DVDs quickly, the company levied big fines for every day that the customer forgot to return the DVD on time. Before long, 70 percent of Blockbuster's profits were from these fees.

Set against this backdrop, a little upstart called Netflix emerged in the 1990s with a novel idea: Rather than make people go to the video store, why don't we mail DVDs to them? Netflix's business model made profit in just the opposite way to Blockbuster's. Netflix customers paid a monthly fee — and the company made money when customers *didn't* watch the DVDs that they had ordered. As long as the DVDs sat unwatched at customers' homes, Netflix did not have to send out the next batch of movies that the customer had already paid the monthly fee to get.

It was a bold move. If Blockbuster decided it wanted to go after this new market, it would have the resources to make life very difficult for the little start-up. But it didn't.

By 2002, the upstart was showing signs of potential. It had $150 million in revenues and a 36 percent profit margin. So Blockbuster looked more closely at the market.

When it compared Netflix's numbers to its own, Blockbuster's management concluded, "Why would we bother?" The market Netflix was pursuing was smaller, and its profit margins were substantially smaller than what Blockbuster was used to. If Blockbuster attacked Netflix, those efforts would most likely cannibalize sales from Blockbuster's very profitable stores.

Netflix, on the other hand, thought this market was fantastic. It didn't need to compare it to an existing and profitable business: Its baseline was no profit and no business at all. Compared to that, Netflix was very happy with their relatively low margins and their niche market.

So, who was right?

By 2011, Netflix had almost 24 million customers. And Blockbuster? It had declared bankruptcy the year before.

Blockbuster followed a principle that is taught in every fundamental course in finance and economics: that in evaluating alternative investments, we should ignore sunk and fixed costs, and instead base decisions on the marginal costs and the marginal revenues (the new costs and revenues) that each alternative entails.

But it's a dangerous way of thinking. Almost always, such analysis shows that the marginal costs are lower, and marginal profits are higher, than the full cost. This doctrine biases companies to leverage what they have put in place to succeed in the past, instead of guiding them to create the capabilities they'll need in the future. If we knew the future would be exactly the same as the past, that approach would be fine. But if the future's different — and it almost always is — then it's the wrong thing to do.

Marginal thinking made Blockbuster believe that the alternative to not pursuing the postal

DVD market was to continue doing what it was doing before, at 66 percent margins and billions of dollars in revenue. But the real alternative was bankruptcy.

This is almost always how it plays out. Because failure is often at the end of a path of marginal thinking, we end up paying for the full cost of our decisions, not the marginal costs, whether we like it or not.

This marginal-cost argument applies the same way in choosing right and wrong. The marginal cost of doing something "just this once" always seems to be negligible, but the full cost will typically be *much* higher. Yet we unconsciously employ the marginal-cost doctrine in our personal lives. A voice in our head says, "Look, I know that as a general rule, most people shouldn't do this. But just this once, it's okay."

The price of doing something wrong "just this once" usually appears alluringly low. It suckers you in, and you don't see where that path is ultimately headed or the full cost that the choice entails.

Recent years have offered plenty of examples of people, who were extremely well-respected by their colleagues and peers, falling from grace because they made this mistake. The political arena is littered with examples of people getting caught doing something that would never have crossed their minds when they first decided they wanted to serve their country. Insider-trading scandals have rocked nearly every generation of Wall Street titans. Scores of athletes have been caught abusing steroids.

Nick Leeson, the 26-year-old trader who famously brought down British merchant bank Barings in 1995 after racking up $1.3 billion in trading losses before being detected, allowed marginal thinking to lead him to doom. In hindsight, it all started with one small step — a relatively small error. But he didn't want to admit to it. Instead, he covered it up by hiding the loss in a little-scrutinized trading account.

It led him deeper and deeper down a path of deception. He made a series of bets in order to pay the losses back — but rather than paying off, they made the problem worse. He lied to cover lies; he forged documents, misled auditors, and made false statements to try to hide his mounting losses.

Eventually, Barings realized the extent of Leeson's debt and was forced to declare bankruptcy. The bank was sold to ING for just 1 pound. Twelve hundred employees lost their jobs, some of them his friends. And Leeson was sentenced to six and a half years in a Singaporean prison.

How could hiding one mistake from his bosses end up leading to the undoing of a 233-year-old merchant bank, a conviction and imprisonment for fraud, and ultimately the failure of his marriage? It's almost impossible to see where Leeson would end up from the vantage point of where he started — but that's the danger of marginal thinking.

Many of us have convinced ourselves that we are able to break our own personal rules "just this once." In our minds, we can justify these small choices. None of those things feels like a life-changing decision. The marginal costs are almost always low. But each of those decisions can roll up to a much bigger picture, turning you into the kind of person you never wanted to be. That instinct to just use the marginal costs hides from us the true cost of our actions.

It's easier to hold to your principles 100 percent of the time than it is to hold to them 98 percent of the time. You must decide what you stand for, and then stand for it all the time.

Purpose

Whether they want one or not, every company has a purpose — it rests in the priorities of the company, and effectively shapes the rules by which managers and employees decide what is the most important in each unique situation. Enterprises with *de facto* purposes usually fade away — and very quickly the company, its products, and its leaders are forgotten.

But if an organization has a clear and compelling purpose, its impact and legacy can be extraordinary. The purpose of the company will serve as a beacon, focusing employees' attention on what really matters — and that purpose will allow the company to outlive any one manager or employee.

A useful statement of purpose for a company needs three parts.

The first is a *likeness*. By analogy, a master painter often will create a pencil likeness that he has seen in his mind, before he attempts to create it in oils. A likeness of a company is what the key leaders and employees want the enterprise to have become at the end of the path that they are on.

Second, employees and executives need a deep *commitment* to the likeness that they are trying to create. Because issues demanding answers about priorities will repeatedly emerge in unpredictable ways, employees without this deep commitment will find that the world will compromise the likeness by wave after wave of extenuating circumstances.

The third part of a company's purpose is one or a few *metrics* by which managers and employees can measure their progress. These metrics enable everyone associated with the enterprise to calibrate their work, keeping them moving together in a coherent way.

The greatest corporate leaders are conscious of the power of purpose in helping their companies make their mark on the world. The same is true for leaders outside the business sphere. People who have led movements of change, such as Mahatma Gandhi, Martin Luther King, and the Dalai Lama, have had an extraordinarily clear sense of purpose.

But the world did not "deliver" a cogent and rewarding purpose to them. Unfortunately, it won't "deliver" one to you, either. The type of person you want to become — *what* the purpose of your life is — is too important to leave to chance. It needs to be deliberately conceived, chosen, and managed.

Understanding the three parts composing the purpose of your life — a likeness, a commitment, and a metric — is the most reliable way to define for yourself what your purpose is, and to live it every day.

Creating the likeness you aspire to be is a form of setting goals for yourself — the most important ones you'll ever set. If you begin to feel that the likeness you have sketched out for yourself is not right — that this is not the person you want to become — then you must revisit your likeness. But if it becomes clear that it *is* the person you want to become, then you must make a commitment to devote your life to becoming that person, and then you must measure your progress toward that goal.

Knowing your purpose in life is critical. Without it, how can you ever know to put the important things first?

At the end of his Harvard Business School class, Christensen promises his students that if they take the time to figure out their life's purpose, they'll look back on it as the most important thing they will ever have discovered. In the long run, clarity about purpose will trump knowledge of activity-based costing, balanced scorecards, core competence, disruptive innovation, the four Ps, the five forces, and other key business theories taught at Harvard.

What is true for them is true for you, too. If you take the time to figure out your purpose in life, you will look back on it as the most important thing you will have ever learned.

When you know your purpose, you can answer the most important question of all: How will you measure your life?

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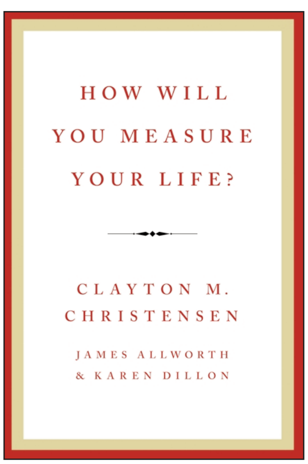

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