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FINANCE & ACCOUNTING

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FINANCE & ACCOUNTING

Using the Balanced Scorecard as a Strategic Management System

Robert S. Kaplan and David P. Norton
January 1996

EXECUTIVE SUMMARY

The balanced scorecard revolutionized thinking about performance metrics. When Kaplan and Norton introduced the concept, in 1992, companies were busy transforming themselves to compete in the world of information; their ability to exploit intangible assets was becoming more decisive than their ability to manage physical assets. The scorecard allowed companies to track financial results while monitoring progress in building the capabilities needed for growth. The tool was intended not as a replacement for financial measures but, rather, as a complement—and that's just how most companies treated it.

Some went a step further, however, and discovered the scorecard's value as the cornerstone of a new strategic management system. In this article from 1996, the authors describe how the balanced scorecard can address a serious deficiency in traditional management systems: the inability to link a company's long-term strategy with its short-term financial goals. The scorecard lets managers introduce four new processes that help companies make that important link.

The first process—translating the vision—helps managers build consensus concerning a company's strategy and express it in terms that can guide action at the local level. The second—communicating and linking—calls for communicating a strategy at all levels of the organization and linking it with unit and individual goals. The third—business planning—enables companies to integrate their business plans with their financial plans. The fourth—feedback and learning—gives them the capacity for strategic learning, which consists of gathering feedback, testing the hypotheses on which a strategy is based, and making necessary adjustments.

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The Explainer: Video
The Balanced Scorecard

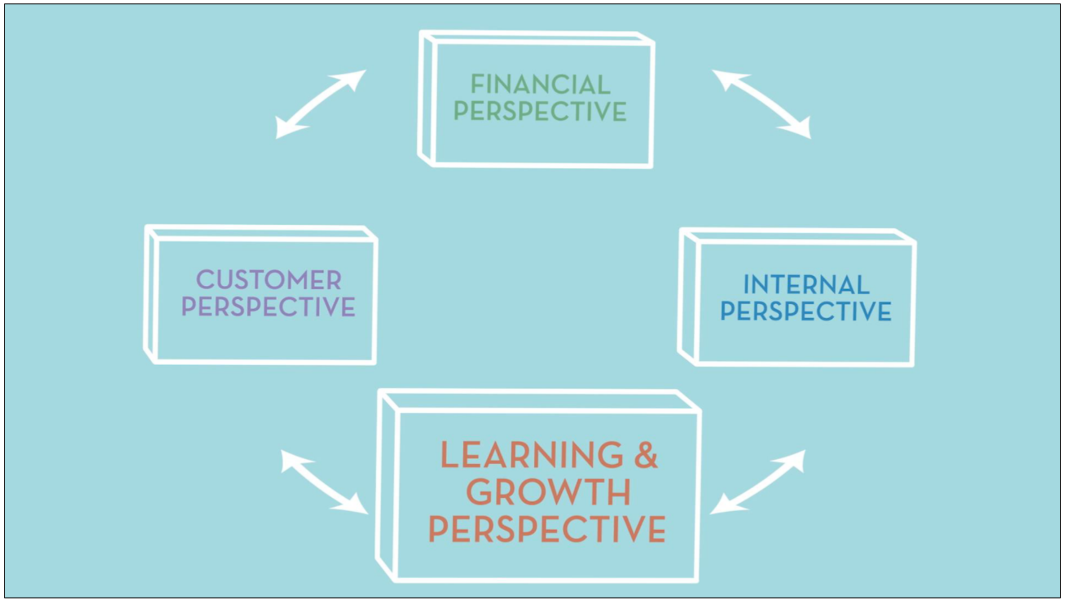
Graphic
Managing Strategy: Four Processes

FINANCE & ACCOUNTING

VIDEO

The Explainer: The Balanced Scorecard

Robert S. Kaplan and **David P. Norton**'s seminal framework — in under three minutes



GLOBAL BUSINESS

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GLOBAL BUSINESS

Distance Still Matters: The Hard Reality of Global Expansion

Pankaj Ghemawat
September 2001

EXECUTIVE SUMMARY

Companies routinely overestimate the attractiveness of untapped foreign markets. Dazzled by the sheer size of those markets, they lose sight of the difficulties of pioneering in new, often very different territories. The problem is rooted in the analytic tools—the most prominent being country portfolio analysis, or CPA—that managers use to judge international investments. By focusing on national wealth, consumer income, and people's propensity to consume, CPA emphasizes potential sales, ignoring the costs and risks of doing business in a new market. Most of those costs and risks result from the barriers created by distance.

"Distance," however, does not refer only to geography; its other dimensions can make foreign markets considerably more or less attractive. The CAGE framework of distance presented here considers four attributes: cultural distance (religious beliefs, race, social norms, and language that differ between the target country and the country of the company considering expansion); administrative or political distance (colony–colonizer links, common currency, and trade arrangements); geographic distance (the physical distance between the two countries, the size of the target country, access to waterways and the ocean, internal topography, and transportation and communications infrastructures); and economic distance (disparities in the two countries' wealth or consumer income and variations in the cost and quality of financial and other resources).

This framework can help to identify the ways in which potential markets may be distant from existing ones. The article explores how (and by how much) various types of distance can affect different industries and shows how dramatically an explicit consideration of distance can change a company's picture of its strategic options.

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Book
Redefining Global Strategy

INNOVATION & ENTREPRENEURSHIP

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INNOVATION & ENTREPRENEURSHIP

How to Write a Great Business Plan

William A. Sahlman
July–August 1997

EXECUTIVE SUMMARY

Every seasoned investor knows that detailed financial projections for a new company are an act of imagination. Nevertheless, most business plans pour far too much ink on the numbers — and far too little on the information that really matters.

Why? William Sahlman suggests that a great business plan is one that focuses on a series of questions. These questions relate to the four factors critical to the success of every new venture: the people, the opportunity, the context, and the possibilities for both risk and reward.

The questions about people revolve around three issues: What do they know? Whom do they know? and How well are they known?

As for opportunity, the plan should focus on two questions: Is the market for the venture's product or service large or rapidly growing (or preferably both)? and Is the industry structurally attractive?

Then, in addition to demonstrating an understanding of the context in which their venture will operate, entrepreneurs should make clear how they will respond when that context inevitably changes.

Finally, the plan should look unflinchingly at the risks the new venture faces, giving would-be backers a realistic idea of what magnitude of reward they can expect and when they can expect it.

A great business plan is not easy to compose, Sahlman acknowledges, largely because most entrepreneurs are wild-eyed optimists. But one that asks the right questions is a powerful tool. A better deal, not to mention a better shot at success, awaits entrepreneurs who use it.

Read the Full Article

Book
Creating Business Plans (HBR 20-Minute Manager Series)

LEADERSHIP & MANAGING PEOPLE

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LEADERSHIP & MANAGING PEOPLE

Building Your Company's Vision

James C. Collins and Jerry I. Porras
September–October 1996

Read the Full Article

EXECUTIVE SUMMARY

Companies that enjoy enduring success have a core purpose and core values that remain fixed while their strategies and practices endlessly adapt to a changing world. The rare ability to balance continuity and change—requiring a consciously practiced —is closely linked to the ability to develop a vision. Vision provides guidance about what to preserve and what to change. A new prescriptive framework can add clarity and rigor to the vague vision concepts at large today.

The framework has two principal parts: core ideology and envisioned future. Core ideology combines an organization's core values and core purpose. It's the glue that holds a company together as it grows and changes. Core values are essential and enduring tenets—the values an organization would hold even if they became a competitive disadvantage. Core purpose is the organization's fundamental reason for being.

The second component of the vision framework is the envisioned future. First, a company must identify bold stretch goals; then it should articulate vivid descriptions of what it will mean to achieve them. Henry Ford set the goal of democratizing the automobile and then told the world, "When I'm through…everyone will have one. The horse will have disappeared from our highways"—an imaginative stretch for the time.

Unfortunately, the usual vision statement is fuzzy and inspires only boredom. But managers who master a discovery process to identify core ideology can link their vision statements to the fundamental dynamic that motivates truly visionary companies—that is, preserving the core and stimulating progress.

LEADERSHIP & MANAGING PEOPLE

Discovering Your Authentic Leadership

Bill George, Peter Sims,
Andrew N. McLean, and Diana Mayer
February 2007

Read the Full Article

EXECUTIVE SUMMARY

The ongoing problems in business leadership over the past five years have underscored the need for a new kind of leader in the twenty-first century: the authentic leader. Author Bill George, a Harvard Business School professor and the former chairman and CEO of Medtronic, and his colleagues conducted the largest leadership development study ever undertaken. They interviewed 125 business leaders from different racial, religious, national, and socioeconomic backgrounds to understand how leaders become and remain authentic. Their interviews showed that you do not have to be born with any particular characteristics or traits to lead. You also do not have to be at the top of your organization. Anyone can learn to be an authentic leader.

The journey begins with leaders' understanding their own life stories. Authentic leaders frame their stories in ways that allow them to see themselves not as passive observers but as individuals who learn from their experiences. These people make time to examine their experiences and to reflect on them, and in doing so they grow as individuals and as leaders. Authentic leaders also work hard at developing self-awareness through persistent and often courageous self-exploration. Denial can be the greatest hurdle that leaders face in becoming self-aware, but authentic leaders ask for, and listen to, honest feedback. They also use formal and informal support networks to help them stay grounded and lead integrated lives.

The authors argue that it may be possible to drive short-term outcomes without being authentic, but achieving business results over a sustained period of time is the ultimate mark of authentic leadership.

LEADERSHIP & MANAGING PEOPLE

Harnessing the Science of Persuasion

Robert B. Cialdini
October 2001

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Harnessing the Science of Persuasion

EXECUTIVE SUMMARY

If leadership at its most basic consists of getting things done through others, then persuasion is one of the leader's essential tools. Many executives have assumed that this tool is beyond their grasp, available only to the charismatic and the eloquent. Over the past several decades, though, experimental psychologists have learned which methods reliably lead people to concede, comply, or change. Their research shows that persuasion is governed by several principles that can be taught and applied.

The first principle is that people are more likely to follow someone who is similar to them than someone who is not. Wise managers, then, enlist peers to help make their case. Second, people are more willing to cooperate with those who not only are like them but also like them. So it's worth the time to uncover real similarities and to offer genuine praise. Third, experiments confirm the intuitive truth that people tend to treat you the way you treat them. It's sound policy to do a favor before seeking one. Fourth, individuals are more likely to keep promises they make voluntarily and explicitly. The message for managers here is to get commitments in writing. Fifth, studies show that people really do defer to experts. So before they attempt to exert influence, executives should take pains to establish their own expertise and not assume that it's self-evident.

Finally, people want more of a commodity when it's scarce. It follows that exclusive information is more persuasive than widely available data. By mastering these principles—and, the author stresses, using them judiciously and ethically—executives can learn the elusive art of capturing an audience, swaying the undecided, and converting the opposition.

LEADERSHIP & MANAGING PEOPLE

How Management Teams Can Have a Good Fight

Kathleen M. Eisenhardt, Jean L. Kahwajy, and L.J. Bourgeois III
July–August 1997

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How Management Teams Can Have a Good Fight

EXECUTIVE SUMMARY

Top-level managers know that conflict over issues is natural and even necessary. When the members of management teams challenge one another's thinking they develop a more complete understanding of their choices, create a richer range of options, and make better decisions. But the challenge—familiar to anyone who has ever been part of a management team—is to keep constructive conflict over issues from degenerating into interpersonal conflict. From their research on the interplay of conflict, politics, and speed in the decision-making process of management teams, the authors have distilled of six tactics characteristic of high-performing teams:

- They work with more, rather than less, information.
- They develop multiple alternatives to enrich debate.
- They establish common goals.
- They make an effort to inject humor into the workplace.
- They maintain a balanced corporate power structure.
- They resolve issues without forcing a consensus.

These tactics work because they keep conflict focused on issues; foster collaborative, rather than competitive, relations among team members; and create a sense of fairness in the decision-making process. Without conflict, groups lose their effectiveness. Members often become withdrawn and only superficially harmonious. The alternative to conflict is usually not agreement but, rather, apathy and disengagement, which open the door to a primary cause of major corporate debacles: groupthink.

LEADERSHIP & MANAGING PEOPLE

How Will You Measure Your Life?

Clayton M. Christensen
July–August 2010

Read the Full Article

EXECUTIVE SUMMARY

Harvard Business School's Christensen teaches aspiring MBAs how to apply management and innovation theories to build stronger companies. But he also believes that these models can help people lead better lives. In this article, he explains how, exploring questions everyone needs to ask: How can I be happy in my career? How can I be sure that my relationship with my family is an enduring source of happiness? How can I live my life with integrity?

The answer to the first question comes from Frederick Herzberg's assertion that the most powerful motivator isn't money; it's the opportunity to learn, grow in responsibilities, contribute, and be recognized. That's why management, if practiced well, can be the noblest of occupations; no others offer as many ways to help people find those opportunities. It isn't about buying, selling, and investing in companies, as many think.

The principles of resource allocation can help people attain happiness at home. If resources are not managed skillfully, what emerges from a firm's allocation process may be very different from the strategy that management intended to follow. That's true in life, too: If you're not guided by a clear sense of purpose, you're likely to fritter away your time and energy on obtaining the most tangible, short-term signs of achievement, not what's really important to you.

And just as a focus on marginal costs can cause bad corporate decisions, it can lead people astray. The marginal cost of doing something wrong "just this once" always seems alluringly low. You don't see the end result to which that path leads. The key is to define what you stand for and draw the line in a safe place.

LEADERSHIP & MANAGING PEOPLE

Leadership That Gets Results

Daniel Goleman
March–April 2000

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Slide Deck
The Focused Leader

EXECUTIVE SUMMARY

A leader's singular job is to get results. But even with all the leadership training programs and "expert" advice available, effective leadership still eludes many people and organizations. One reason, says Daniel Goleman, is that such experts offer advice based on inference, experience, and instinct, not on quantitative data.

Now, drawing on research involving more than 3,000 executives, Goleman explores precisely which leadership behaviors yield positive results. He outlines six distinct leadership styles, each one springing from different components of emotional intelligence. Each style has a particular effect on the working atmosphere of a company, a division, or a team, and, in turn, on its financial performance. The styles, by name and brief description alone, will resonate with anyone who leads, is led, or, as is the case with most of us, does both.

Coercive leaders demand immediate compliance. *Authoritative* leaders mobilize people toward a vision. *Affiliative* leaders create emotional bonds and harmony. *Democratic* leaders build consensus through participation. *Pacesetting* leaders expect excellence and self-direction. And *coaching* leaders develop people for the future.

The research indicates that leaders who get the best results don't rely on just one leadership style; they use most of the styles in any given week. Goleman details the types of business situations each style is best suited for and explains how leaders who lack one or more styles can expand their repertoires. He maintains that with practice, leaders can switch among the six styles to produce powerful results, thus turning the art of leadership into a science.

LEADERSHIP & MANAGING PEOPLE

Leading Change: Why Transformation Efforts Fail

John P. Kotter
May–June 1995

EXECUTIVE SUMMARY

Businesses hoping to survive over the long term will have to remake themselves into better competitors at least once along the way. These efforts have gone under many banners: total quality management, reengineering, rightsizing, restructuring, cultural change, and turnarounds, to name a few. In almost every case, the goal has been to cope with a new, more challenging market by changing the way business is conducted. A few of these endeavors have been very successful, a few have been utter failures. Most fall somewhere in between, with a distinct tilt toward the lower end of the scale.

John P. Kotter is renowned for his work on leading organizational change. In 1995, when this article was first published, he had just completed a 10-year study of more than 100 companies that had attempted such a transformation. Here he shares the results of his observations, outlining the eight largest errors that can doom these efforts and explaining the general lessons that encourage success.

Unsuccessful transitions almost always founder during at least one of the following phases: generating a sense of urgency, establishing a powerful guiding coalition, developing a vision, communicating the vision clearly and often, removing obstacles, planning for and creating short-term wins, avoiding premature declarations of victory, and embedding changes in the corporate culture.

Realizing that change usually takes a long time, says Kotter, can improve the chances of success.

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Graphic
Eight Steps to Transforming Your Organization

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Accelerating Change

Related Article
Accelerate!

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LEADERSHIP & MANAGING PEOPLE

Level 5 Leadership: The Triumph of Humility and Fierce Resolve

Jim Collins
January 2001

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The Explainer: Video
Level 5 Leadership

EXECUTIVE SUMMARY

Boards of directors typically believe that transforming a company from good to great requires an extreme personality—an egocentric chief to lead the corporate charge. Think "Chainsaw" Al Dunlap or Lee Iacocca. But that's not the case, says author and leadership expert Jim Collins. The essential ingredient for taking a company to greatness is having a "Level 5" leader—an executive in whom extreme personal humility blends paradoxically with intense professional will.

Collins paints a compelling and counterintuitive portrait of the skills and personality traits necessary for effective leadership. He identifies the characteristics common to Level 5 leaders: humility, will, ferocious resolve, and a tendency to give credit to others while assigning blame to themselves. Collins fleshes out his Level 5 theory by telling colorful tales about 11 such leaders from recent business history. He contrasts the turnaround successes of outwardly humble, even shy, executives such as Gillette's Colman M. Mockler and Kimberly-Clark's Darwin E. Smith with those of larger-than-life business leaders like Dunlap and Iacocca, who courted personal celebrity.

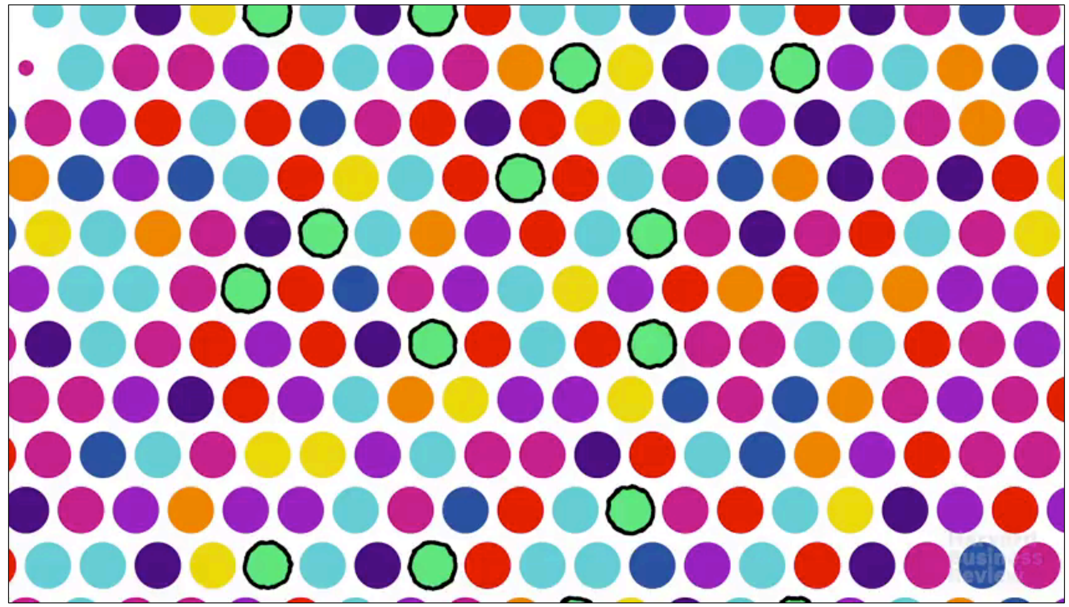
Some leaders have the Level 5 seed within; some don't. But Collins suggests using the findings from his research to strive for Level 5—for instance, by getting the right people on board and creating a culture of discipline. "Our own lives and all that we touch will be the better for making the effort," he concludes.

LEADERSHIP & MANAGING PEOPLE

The Explainer: Level 5 Leadership

How to combine fierce resolve with personal humility.

VIDEO



LEADERSHIP & MANAGING PEOPLE

Managing Multicultural Teams

Jeanne Brett, Kristin Behfar, and Mary C. Kern
November 2006

EXECUTIVE SUMMARY

Multicultural teams offer a number of advantages to international firms, including deep knowledge of different product markets, culturally sensitive customer service, and 24-hour work rotations. But those advantages may be outweighed by problems stemming from cultural differences, which can seriously impair the effectiveness of a team or even bring it to a stalemate. How can managers best cope with culture-based challenges?

The authors conducted in-depth interviews with managers and members of multicultural teams from all over the world. Drawing on their extensive research on dispute resolution and teamwork and those interviews, they identify four problem categories that can create barriers to a team's success: direct versus indirect communication, trouble with accents and fluency, differing attitudes toward hierarchy and authority, and conflicting norms for decision making. If a manager—or a team member—can pinpoint the root cause of the problem, he or she is likelier to select an appropriate strategy for solving it.

The most successful teams and managers, the authors found, dealt with multicultural challenges in one of four ways: adaptation (acknowledging cultural gaps openly and working around them), structural intervention (changing the shape or makeup of the team), managerial intervention (setting norms early or bringing in a higher-level manager), and exit (removing a team member when other options have failed). Which strategy is best depends on the particular circumstances—and each has potential complications. In general, though, managers who intervene early and set norms; teams and managers who try to engage everyone on the team; and teams that can see challenges as stemming from culture, not personality, succeed in solving culture-based problems with good humor and creativity. They are the likeliest to harvest the benefits inherent in multicultural teams.

Read the Full Article

Book
HBR's 10 Must Reads on Managing Across Cultures

LEADERSHIP & MANAGING PEOPLE

The Necessary Art of Persuasion

Jay A. Conger
May–June 1998

EXECUTIVE SUMMARY

Business today is largely run by teams and populated by authority-averse Baby Boomers and Generation Xers. That makes persuasion more important than ever as a managerial tool. But contrary to popular belief, the author asserts, persuasion is not the same as selling an idea or convincing opponents that they should see things your way. It is a process of learning from others and negotiating a shared solution.

To that end, persuasion consists of four essential elements: establishing credibility, framing to find common ground, providing vivid evidence, and connecting emotionally. Credibility grows, Conger says, out of two sources: expertise and relationships. The former is a function of product or process knowledge, and the latter of a history of listening to and working in the best interests of others. But even if a persuader's credibility is high, his position must make sense—even more, it must appeal—to the audience. Therefore, a persuader must frame his position to illuminate its benefits for everyone who will feel its impact.

Persuasion, then, becomes a matter of presenting evidence–but not just ordinary charts and spreadsheets. The author says the most effective persuaders use vivid—even over-the-top—stories, metaphors, and examples to make their positions come alive.

Finally, good persuaders have the ability to accurately sense and respond to their audience's emotional state. Sometimes that means they have to suppress their own emotions; at other times, they must intensify them. Persuasion can be a force for enormous good in an organization, but people must understand it for what it is: an often painstaking process that requires insight, planning, and compromise.

Read the Full Article

Book
HBR's 10 Must Reads on Communication

LEADERSHIP & MANAGING PEOPLE

The Parable of the Sadhu

Bowen H. McCoy
September–October 1983

Read the Full Article

EXECUTIVE SUMMARY

When does a group have responsibility for the well-being of an individual? And how do the ethics of the individual differ from the ethics of the corporation? Those are the questions Bowen McCoy wanted readers to explore.

In 1982, McCoy spent several months hiking through Nepal. Midway through the difficult trek, as he and several others were preparing to attain the highest point of their climb, they encountered an Indian holy man, or sadhu. Wearing little clothing and shivering in the bitter cold, he was barely alive. McCoy and the other travelers—who included individuals from Japan, New Zealand, and Switzerland, as well as local Nepali guides and porters —immediately wrapped him in warm clothing and gave him food and drink. A few members of the group broke off to help move the sadhu down toward a village two days' journey away, but they soon left him in order to continue their way up the slope.

What happened to the sadhu? In a retrospective commentary, McCoy notes that he never learned the answer to that question. Instead, the sadhu's story only raises more questions. On the Himalayan slope, a collection of individuals was unprepared for a sudden dilemma. They all "did their bit," but the group was not organized enough to take ultimate responsibility for a life. How, asks McCoy in a broader context, do we prepare our organizations and institutions to respond appropriately in ethical crises?

LEADERSHIP & MANAGING PEOPLE

The Work of Leadership

Ronald A. Heifetz and Donald L. Laurie
January 1997

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Book
The Practice of Adaptive Leadership

EXECUTIVE SUMMARY

Changes in societies, markets, and technologies around the globe constantly force businesses to clarify their values, develop new strategies, and learn new ways to operate. The most important task for leaders in the face of such challenges is mobilizing people throughout their organizations to do adaptive work.

The authors suggest that the prevailing notion that leadership consists of having a vision and aligning people with it is bankrupt, because it ignores the fact that many work situations are adaptive rather than technical. Heifetz and Laurie instead offer six principles for leading adaptive work.

They say that leaders need to get on the balcony—they should be able to spot operational and strategic patterns from high within the organization and set or create a context for change rather than get caught up in the field of action. They need to identify the adaptive challenges—pinpointing, with input from throughout the company, just how the company's value systems or methods of collaboration should change. They need to regulate the inevitable distress that adaptive work generates—people invariably resist change. They need to maintain disciplined attention among employees, getting workers to confront the fact that they come together with different work habits, procedures, and beliefs; tough trade-offs may be necessary. Leaders need to give the work back to people, letting employees take the initiative in defining and solving problems. And finally, they need to protect the voices of leadership coming from below. An example of adaptive change at KPMG Netherlands, a professional services firm, illustrates these principles.

LEADERSHIP & MANAGING PEOPLE

What Leaders Really Do

John P. Kotter
December 2001

Read the Full Article

EXECUTIVE SUMMARY

Leadership is different from management, but not for the reasons most people think. Leadership isn't mystical and mysterious. It has nothing to do with having charisma or other exotic personality traits. It is not the province of a chosen few. Nor is leadership necessarily better than management or a replacement for it. Rather, leadership and management are two distinctive and complementary systems of action. Each has its own function and characteristic activities. Both are necessary for success in today's business environment.

Management is about coping with complexity. Its practices and procedures are largely a response to the emergence of large, complex organizations in the twentieth century. Leadership, by contrast, is about coping with change. Part of the reason it has become so important in recent years is that the business world has become more competitive and more volatile. More change always demands more leadership.

Most U.S. corporations today are overmanaged and underled. They need to develop their capacity to exercise leadership. Successful corporations don't wait for leaders to come along. They actively seek out people with leadership potential and expose them to career experiences designed to develop that potential. Indeed, with careful selection, nurturing, and encouragement, dozens of people can play important leadership roles in a business organization. But while improving their ability to lead, companies should remember that strong leadership with weak management is no better, and is sometimes actually worse, than the reverse. The real challenge is to combine strong leadership and strong management and use each to balance the other.

LEADERSHIP & MANAGING PEOPLE

What Makes a Leader?

Daniel Goleman
June 1996

EXECUTIVE SUMMARY

When asked to define the ideal leader, many would emphasize traits such as intelligence, toughness, determination, and vision—the qualities traditionally associated with leadership. Such skills and smarts are necessary but insufficient. Often left off the list are softer, more personal qualities—but they are also essential. Although a certain degree of analytic and technical skill is a minimum requirement for success, studies indicate that emotional intelligence may be the key attribute that distinguishes outstanding performers from those who are merely adequate.

Psychologist and author Daniel Goleman first brought the term "emotional intelligence" to a wide audience with his 1995 book of the same name, and he first applied the concept to business with this 1998 classic HBR article. In his research at nearly 200 large global companies, Goleman found that truly effective leaders are distinguished by a high degree of emotional intelligence. Without it, a person can have first-class training, an incisive mind, and an endless supply of good ideas, but he still won't be a great leader.

The chief components of emotional intelligence—self-awareness, self-regulation, motivation, empathy, and social skill—may sound unbusinesslike, but Goleman, cochair of the Consortium for Research on Emotional Intelligence in Organizations, based at Rutgers University, has found direct ties between emotional intelligence and measurable business results. The notion of emotional intelligence and its relevance to business continues to spark debate, but Goleman's article remains the definitive reference on the subject, with a detailed discussion of each component of emotional intelligence, how to recognize it in potential leaders, how and why it connects to performance, and how it can be learned.

Read the Full Article

The Explainer: Video
Emotional Intelligence

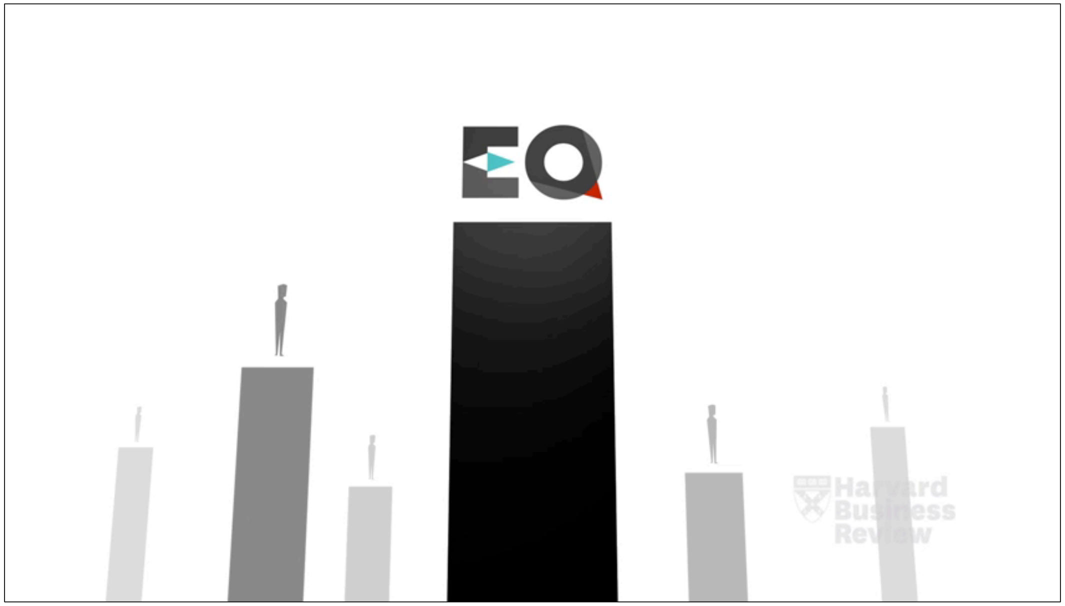
Graphic
The Five Components of Emotional Intelligence at Work

Slide Deck
What Makes a Leader?

VIDEO

The Explainer: Emotional Intelligence

The five components of emotional intelligence and how to improve each.



LEADERSHIP & MANAGING PEOPLE

What You Don't Know About Making Decisions

David A. Garvin and Michael A. Roberto
September 2001

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EXECUTIVE SUMMARY

Most executives think of decision making as a singular event that occurs at a particular point in time. In reality, though, decision making is a process fraught with power plays, politics, personal nuances, and institutional history. Leaders who recognize this make far better decisions than those who persevere in the fantasy that decisions are events they alone control.

That said, some decision-making processes are far more effective than others. Most often, participants use an advocacy process—possibly the least productive way to get things done. They view decision making as a contest, arguing passionately for their preferred solutions, presenting information selectively, withholding relevant conflicting data in order to make a convincing case, and standing firm against opposition. Much more powerful is an inquiry process, in which people consider a variety of options and work together to discover the best solution.

Moving from advocacy to inquiry requires careful attention to three critical factors: fostering constructive, rather than personal, conflict; ensuring that all viewpoints are given serious consideration; and knowing when to bring deliberations to a close. The authors discuss in detail strategies for moving from an advocacy to an inquiry process and for fostering productive conflict, true consideration, and timely closure. And they offer a framework for assessing the effectiveness of your process while you're still in the middle of it.

Decision making is a job that lies at the very heart of leadership. It requires the ability to embrace the divergence that may characterize early discussions and to forge the unity needed for effective implementation.

LEADERSHIP & MANAGING PEOPLE

Why Should Anyone Be Led by You?

Robert Goffee and Gareth Jones
September–October 2000

EXECUTIVE SUMMARY

We all know that leaders need vision and energy, but after an exhaustive review of the most influential theories on leadership—and workshops with thousands of leaders and aspiring leaders—the authors learned that great leaders also share four unexpected qualities.

The first is that they selectively reveal their weaknesses (weaknesses, not fatal flaws). Doing so lets employees see that they are approachable. It builds an atmosphere of trust and helps galvanize commitment. The second quality is a heavy reliance on intuition to gauge the appropriate timing and course of their actions. Exceptional leaders are good "situation sensors"—they can sense what's going on without having things spelled out for them. Managing employees with "tough empathy" is the third quality. Tough empathy means giving people what they need, not what they want. Leaders must empathize passionately and realistically with employees, care intensely about the work they do, and be straightforward with them. The fourth quality of top-notch leaders is that they capitalize on their differences. They use what's unique about themselves to create a social distance and to signal separateness, which in turn motivates employees to perform better.

All four qualities are necessary for inspirational leadership, but they cannot be used mechanically; they must be mixed and matched to meet the demands of particular situations. Most important, however, is that these qualities encourage authenticity among leaders. To be a true leader, the authors advise, "Be yourself—more—with skill."

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Book
Why Should Anyone Be Led by You?

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ORGANIZATIONAL DEVELOPMENT

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ORGANIZATIONAL DEVELOPMENT

Before You Make That Big Decision

Daniel Kahneman, Dan Lovallo, and Olivier Sibony
June 2011

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[Graphic
12 Questions to Ask Before You Make That Big Decision]

EXECUTIVE SUMMARY

When an executive makes a big bet, he or she typically relies on the judgment of a team that has put together a proposal for a strategic course of action. After all, the team will have delved into the pros and cons much more deeply than the executive has time to do. The problem is, biases invariably creep into any team's reasoning—and often dangerously distort its thinking. A team that has fallen in love with its recommendation, for instance, may subconsciously dismiss evidence that contradicts its theories, give far too much weight to one piece of data, or make faulty comparisons to another business case.

That's why with important decisions, executives need to conduct a careful review not only of the content of recommendations but of the recommendation process. To that end, the authors —Kahneman, who won a Nobel Prize in economics for his work on cognitive biases; Lovallo of the University of Sydney; and Sibony of McKinsey—have put together a 12-question checklist intended to unearth and neutralize defects in teams' thinking. These questions help leaders examine whether a team has explored alternatives appropriately, gathered all the right information, and used well-grounded numbers to support its case. They also highlight considerations such as whether the team might be unduly influenced by self-interest, overconfidence, or attachment to past decisions.

By using this practical tool, executives can build decision processes over time that reduce the effects of biases and upgrade the quality of decisions their organizations make. The payoffs can be significant: A recent McKinsey study of more than 1,000 business investments, for instance, showed that when companies worked to reduce the effects of bias, they raised their returns on investment by seven percentage points.

Executives need to realize that the judgment of even highly experienced, superbly competent managers can be fallible. A disciplined decision-making process, not individual genius, is the key to good strategy.

ORGANIZATIONAL DEVELOPMENT

The Discipline of Teams

Jon R. Katzenbach and Douglas K. Smith
July–August 2005

Read the Full Article

EXECUTIVE SUMMARY

Groups don't become teams because that is what someone calls them. Nor do teamwork values by themselves ensure team performance. So what is a team? How can managers know when the team option makes sense and what they can do to ensure team success?

In this article, drawn from their classic book *The Wisdom of Teams*, McKinsey partners Jon Katzenbach and Douglas Smith answer these questions and outline the discipline that makes a real team. The essence of a team is shared commitment. Without it, groups perform as individuals; with it, they become a powerful unit of collective performance. The best teams invest a tremendous amount of time shaping a purpose that they can own. The best teams also translate their purpose into specific performance goals. And members of successful teams pitch in and become accountable with and to their teammates.

The fundamental distinction between teams and other forms of working groups turns on performance. A working group relies on the individual contributions of its members for group performance. But a team strives for something greater than its members could achieve individually. In short, an effective team is always worth more than the sum of its parts. Katzenbach and Smith identify three basic types of teams: teams that recommend things (task forces or project groups); teams that make or do things (manufacturing, operations, or marketing groups); and teams that run things (groups that oversee some significant functional activity). For managers, the key is knowing where in the organization real teams should be encouraged.

Team potential exists anywhere hierarchy or organizational boundaries inhibit good performance. Considering the extra level that they can achieve, the authors believe that teams will become the primary work unit in high-performance organizations.

ORGANIZATIONAL DEVELOPMENT

Employee Motivation: A Powerful New Model

Nitin Nohria, Boris Groysberg, and Linda-Eling Lee
July–August 2008

Read the Full Article

EXECUTIVE SUMMARY

Motivating employees begins with recognizing that to do their best work, people must be in an environment that meets their basic emotional drives to acquire, bond, comprehend, and defend. So say Nohria and Groysberg, of Harvard Business School, and Lee, of the Center for Research on Corporate Performance. Using the results of surveys they conducted with employees at a wide range of *Fortune* 500 and other companies, they developed a model for how to increase workplace motivation dramatically.

The authors identify the organizational levers that companies and frontline managers have at their disposal as they try to meet workers' deep needs. Reward systems that truly value good performance fulfill the drive to acquire. The drive to bond is best met by a culture that promotes collaboration and openness. Jobs that are designed to be meaningful and challenging meet the need to comprehend. Processes for performance management and resource allocation that are fair, trustworthy, and transparent address the drive to defend. Equipped with real-world company examples, the authors articulate how to apply these levers in productive ways.

That application should not be selective, they argue, because a holistic approach gets you more than a piecemeal one. By using all four levers simultaneously, and thereby tackling all four drives, organizations can increase motivation by leaps and bounds. For example, a company that falls in the 50th percentile on employee motivation improves only to the 56th by boosting performance on one drive, but way up to the 88th by doing better on all four drives. That's a powerful gain in competitive advantage that any business would relish.

ORGANIZATIONAL DEVELOPMENT

Hidden Traps in Decision Making

John S. Hammond, Ralph L. Keeney, and Howard Raiffa
September–October 1998

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[Slide Deck Hidden Traps in Decision Making](#)

EXECUTIVE SUMMARY

Bad decisions can often be traced back to the way the decisions were made—the alternatives were not clearly defined, the right information was not collected, the costs and benefits were not accurately weighed. But sometimes the fault lies not in the decision-making process but in the mind of the decision maker. The way the human brain works can sabotage the choices we make.

In this article, John Hammond, Ralph Keeney, and Howard Raiffa examine eight psychological traps that can affect the way we make business decisions. The *anchoring trap* leads us to give disproportionate weight to the first information we receive. The *status quo trap* biases us toward maintaining the current situation—even when better alternatives exist. The *sunk-cost trap* inclines us to perpetuate the mistakes of the past. The *confirming-evidence trap* leads us to seek out information supporting an existing predilection and to discount opposing information. The *framing trap* occurs when we misstate a problem, undermining the entire decision-making process. The *overconfidence trap* makes us overestimate the accuracy of our forecasts. The *prudence trap* leads us to be overcautious when we make estimates about uncertain events. And the *recallability trap* prompts us to give undue weight to recent dramatic events.

The best way to avoid all the traps is awareness—forewarned is forearmed. But executives can also take other simple steps to protect themselves and their organizations from these mental lapses. The authors describe what managers can do to ensure that their important business decisions are sound and reliable.

ORGANIZATIONAL DEVELOPMENT

How (Un)ethical Are You?

Mahzarin R. Banaji, Max H. Bazerman, and Dolly Chugh
December 2003

Read the Full Article

EXECUTIVE SUMMARY

Answer true or false: "I am an ethical manager." If you answered "true," here's an uncomfortable fact: You're probably wrong.

Most of us believe we can objectively size up a job candidate or a venture deal and reach a fair and rational conclusion that's in our and our organization's best interests. But more than two decades of psychological research indicates that most of us harbor unconscious biases that are often at odds with our consciously held beliefs. The flawed judgments arising from these biases are ethically problematic and undermine managers' fundamental work—to recruit and retain superior talent, boost individual and team performance, and collaborate effectively with partners.

This article explores four related sources of unintentionally unethical decision making. If you're surprised that a female colleague has poor people skills, you are displaying *implicit bias*—judging according to unconscious stereotypes rather than merit. Companies that give bonuses to employees who recommend their friends for open positions are encouraging *in-group bias*—favoring people in their own circles. If you think you're better than the average worker in your company (and who doesn't?), you may be displaying the common tendency to *overclaim credit*. And although many *conflicts of interest* are overt, many more are subtle. Who knows, for instance, whether the promise of quick and certain payment figures in to an attorney's recommendation to settle a winnable case rather than go to trial?

How can you counter these biases if they're unconscious? Traditional ethics training is not enough. By gathering better data, ridding the work environment of stereotypical cues, and broadening your mindset when you make decisions, you can go a long way toward bringing your unconscious biases to light and submitting them to your conscious will.

ORGANIZATIONAL DEVELOPMENT

Managing Oneself

Peter F. Drucker
March–April 1999

[Read the Full Article]

EXECUTIVE SUMMARY

Throughout history, people had little need to manage their careers—they were born into their stations in life or, in the recent past, they relied on their companies to chart their career paths. But times have drastically changed. Today we must all learn to manage ourselves.

What does that mean? As Peter Drucker tells us in this seminal article, it means we have to learn to develop ourselves. We have to place ourselves where we can make the greatest contribution to our organizations and communities. And we have to stay mentally alert and engaged during a 50-year working life, which means knowing how and when to change the work we do.

It may seem obvious that people achieve results by doing what they are good at and by working in ways that fit their abilities. But, Drucker says, very few people actually know—let alone take advantage of—their fundamental strengths.

He challenges each of us to ask ourselves: What are my strengths? How do I perform? What are my values? Where do I belong? What should my contribution be? Don't try to change yourself, Drucker cautions. Instead, concentrate on improving the skills you have and accepting assignments that are tailored to your individual way of working. If you do that, you can transform yourself from an ordinary worker into an outstanding performer.

Today's successful careers are not planned out in advance. They develop when people are prepared for opportunities because they have asked themselves those questions and have rigorously assessed their unique characteristics. This article challenges readers to take responsibility for managing their futures, both in and out of the office.

ORGANIZATIONAL DEVELOPMENT

Managing Your Boss

John J. Gabarro and John P. Kotter
January 1980

Read the Full Article

Book
HBR Guide to Managing Up and Across

EXECUTIVE SUMMARY

In this classic HBR article, Gabarro and Kotter advise readers to devote time and energy to managing their relationships with their bosses. The authors aren't talking about showering supervisors with flattery; rather, they ask readers to understand that the manager–boss relationship is one of mutual dependence. Bosses need cooperation, reliability, and honesty from their direct reports. Managers, for their part, rely on bosses to make connections with the rest of the company, to set priorities, and to obtain critical resources. It's only sensible to work at making the relationship operate as smoothly as possible.

Successfully managing your relationship with your boss requires that you have a good understanding of your supervisor and of yourself, particularly strengths, weaknesses, work styles, and needs. Once you are aware of what impedes or facilitates communication with your boss, you can take action to improve your relationship. You can usually establish a way of working together that fits both of you, that is characterized by unambiguous mutual expectations, and that makes both of you more productive and effective.

No doubt, some managers will resent that on top of all their other duties, they must take responsibility for their relationships with their bosses. But these managers fail to realize that by doing so, they can actually simplify their jobs, eliminating potentially severe problems and improving productivity.

ORGANIZATIONAL DEVELOPMENT

One More Time: How Do You Motivate Employees?

Frederick Herzberg
January 2003

Read the Full Article

EXECUTIVE SUMMARY

When Frederick Herzberg researched the sources of employee motivation during the 1950s and 1960s, he discovered a dichotomy that stills intrigues (and baffles) managers: The things that make people satisfied and motivated on the job are different in kind from the things that make them dissatisfied.

Ask workers what makes them unhappy at work, and you'll hear about an annoying boss, a low salary, an uncomfortable workspace, or stupid rules. Managed badly, environmental factors make people miserable, and they can certainly be demotivating. But even if managed brilliantly, they don't motivate anybody to work much harder or smarter. People are motivated instead by interesting work, challenge, and increasing responsibility. These intrinsic factors answer their deep-seated need for growth and achievement.

Herzberg's work influenced a generation of scholars and managers—but his conclusions don't seem to have fully penetrated the American workplace, if the extraordinary attention still paid to compensation and incentive packages is any indication.

SALES & MARKETING

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SALES & MARKETING

Customer Value Propositions in Business Markets

James C. Anderson, James A. Narus, and Wouter van Rossum
March 2006

EXECUTIVE SUMMARY

Examples of consumer value propositions that resonate with customers are exceptionally difficult to find. When properly constructed, value propositions force suppliers to focus on what their offerings are really worth. Once companies become disciplined about understanding their customers, they can make smarter choices about where to allocate scarce resources.

The authors illuminate the pitfalls of current approaches, and present a systematic method for developing value propositions that are meaningful to target customers and that focus suppliers' efforts on creating superior value. When managers construct a customer value proposition, they often simply list all the benefits their offering might deliver. But the relative simplicity of this approach may have a major drawback: Managers may claim advantages for features their customers don't care about in the least.

Other suppliers try to answer the question, Why should our firm purchase your offering instead of your competitor's? But without a detailed understanding of the customer's requirements and preferences, suppliers can end up stressing points of difference that deliver relatively little value to the target customer. The pitfall with this approach is to assuming that any favorable points of difference must be valuable for the customer.

Drawing on the best practices of a handful of suppliers in business markets, the authors advocate a resonating focus approach. Suppliers can provide simple yet powerfully captivating consumer value propositions by making their offerings superior on the few elements that matter most to target customers, demonstrating and documenting the value of that superior performance and communicating it in a way that conveys a sophisticated understanding of the customer's business priorities.

Read the
Full Article

Book
Value Merchants: Demonstrating and Documenting Superior Value in Business Markets

SALES & MARKETING

Rediscovering Market Segmentation

Daniel Yankelovich and David Meer
February 2006

Read the Full Article

EXECUTIVE SUMMARY

In 1964, Daniel Yankelovich introduced in the pages of HBR the concept of nondemographic segmentation, by which he meant the classification of consumers according to criteria other than age, residence, income, and such. The predictive power of marketing studies based on demographics was no longer strong enough to serve as a basis for marketing strategy, he argued. Buying patterns had become far better guides to consumers' future purchases.

In addition, properly constructed nondemographic segmentations could help companies determine which products to develop, which distribution channels to sell them in, how much to charge for them, and how to advertise them. But more than 40 years later, nondemographic segmentation has become just as unenlightening as demographic segmentation once was.

Today, the technique is used almost exclusively to fulfill the needs of advertising, which it serves mainly by populating commercials with characters that viewers can identify with. It is true that psychographic types like High-Tech Harry and Joe Six-Pack may capture some truth about real people's lifestyles, attitudes, self-image, and aspirations. But they are no better than demographics at predicting purchase behavior. Thus they give corporate decision makers very little idea of how to retain customers or capture new ones.

Now Yankelovich returns to these pages, with consultant David Meer, to argue the case for a broad view of nondemographic segmentation. They describe the elements of a smart segmentation strategy, explaining how segmentations meant to strengthen brand identity differ from those capable of telling a company which markets it should enter and what goods to make. And they introduce their "gravity of decision spectrum," a tool that focuses on the consumer behavior that should be of greatest interest to marketers—the importance that consumers place on a product or product category.

STRATEGY & EXECUTION

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STRATEGY & EXECUTION

The Balanced Scorecard: Measures That Drive Performance

Robert S. Kaplan and David P. Norton
July–August 2005

EXECUTIVE SUMMARY

Frustrated by the inadequacies of traditional performance measurement systems, some managers have abandoned financial measures such as return on equity and earnings per share. “Make operational improvements and the numbers will follow,” the argument goes. But managers do not want to choose between financial and operational measures. Executives want a balanced presentation of measures that allow them to view the company from several perspectives simultaneously.

During a yearlong research project with 12 companies at the leading edge of performance measurement, the authors developed a “balanced scorecard”—a new performance measurement system that gives top managers a fast but comprehensive view of the business. The balanced scorecard includes financial measures that tell the results of actions already taken. And it complements those financial measures with three sets of operational measures having to do with customer satisfaction, internal processes, and the organization’s ability to learn and improve—the activities that drive future financial performance.

Managers can create a balanced scorecard by translating their company’s strategy and mission statements into specific goals and measures. To create the part of the scorecard that focuses on the customer perspective, for example, executives at Electronic Circuits Inc. established general goals for customer performance: get standard products to market sooner, improve customers’ time to market, become customers’ supplier of choice through partnerships, and develop innovative products tailored to customer needs. Managers translated these elements of strategy into four specific goals and identified a measure for each.

Read the Full Article

The Explainer: Video
The Balanced Scorecard

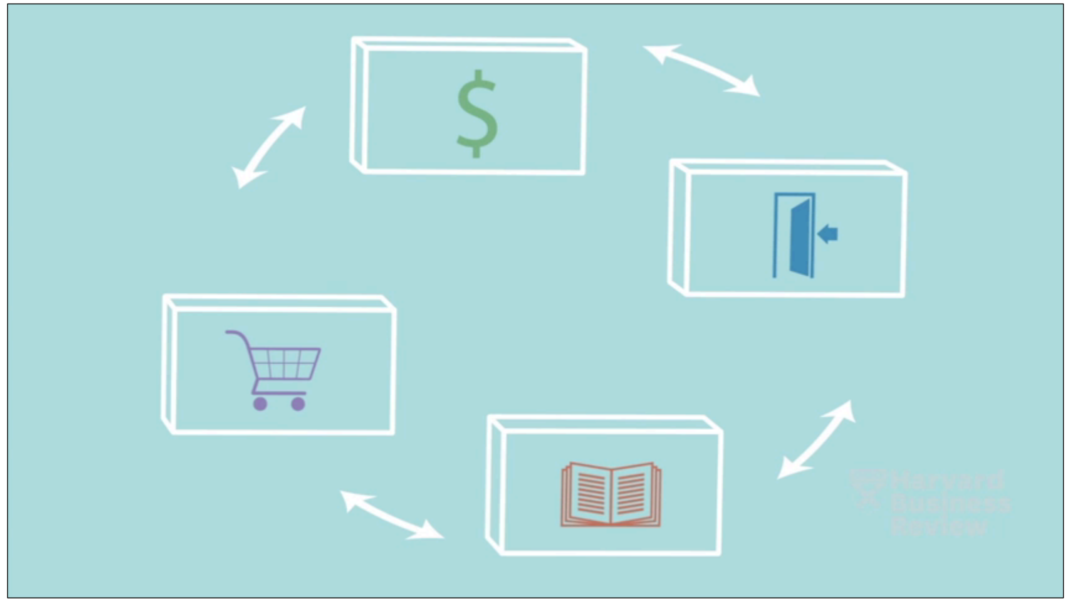
Graphic
Managing Strategy: Four Processes

STRATEGY & EXECUTION

VIDEO

The Explainer: The Balanced Scorecard

Robert S. Kaplan and **David P. Norton**'s seminal framework — in under three minutes.



STRATEGY & EXECUTION

Blue Ocean Strategy

W. Chan Kim and Renée Mauborgne
October 2004

EXECUTIVE SUMMARY

Despite a long-term decline in the circus industry, Cirque du Soleil profitably increased revenue 22-fold over a 10-year period by reinventing the circus. Rather than competing within the confines of the existing industry or trying to steal customers from rivals, Cirque developed uncontested market space that made the competition irrelevant.

Cirque created what the authors call a blue ocean—a previously unknown market space. In blue oceans, demand is created rather than fought over. There is ample opportunity for growth that is both profitable and rapid. In red oceans—that is, in all the industries already existing—companies compete by grabbing for a greater share of limited demand. As the market space gets more crowded, the prospects for profits and growth decline. Products turn into commodities, and increasing competition turns the water bloody.

There are two ways to create blue oceans. One is to launch a completely new industry, as eBay did with online auctions. But it's much more common for a blue ocean to be created from within a red ocean when a company expands the boundaries of an existing industry.

In studying more than 150 blue ocean creations in more than 30 industries, the authors observed that the traditional units of strategic analysis—company and industry—are of limited use in explaining how and why blue oceans are created. The most appropriate unit of analysis is the strategic move: the managerial actions and decisions involved in making a major market-creating business offering.

Creating blue oceans builds brands. So powerful is blue ocean strategy, in fact, that a blue ocean strategic move can create brand equity that lasts for decades.

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Graphic
The Simultaneous Pursuit of Differentiation and Low Cost

Book
Understanding Michael Porter: The Essential Guide to Competition and Strategy

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Blue Ocean Strategy

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Red Ocean Traps

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STRATEGY & EXECUTION

Can You Say What Your Strategy Is?

David J. Collis and Michael G. Rukstad
April 2008

EXECUTIVE SUMMARY

Can you summarize your company's strategy in 35 words or less? Would your colleagues express it the same way? Very few executives can honestly say yes to those simple questions. The thing is, companies with a clear, concise strategy statement —one that employees can easily internalize and use as a guiding light—often turn out to be industry stars. In this article, Harvard Business School's Collis and Rukstad provide a practical guide for crafting an effective strategy statement and include an in-depth example of how the St. Louis–based brokerage firm Edward Jones developed one that has generated success.

Any strategy statement must begin with a definition of the *objective:* the goal that the strategy is designed to achieve. Since most firms compete in a more or less unbounded landscape, it is also crucial to define the *scope*, or domain, of the business. Perhaps most important, companies must have a clear sense of *advantage*—that is, the means by which the business will achieve its stated objective.

Defining the objective, scope, and advantage requires trade-offs. If a firm pursues growth or size, profitability will take a backseat. If it chooses to serve institutional clients, it might ignore retail customers. If it derives its competitive advantage from scale economies, it will not be able to accommodate idiosyncratic customer needs.

Before developing your strategy and crafting your statement, you'll want to carefully evaluate the industry landscape. This includes segmenting customers and identifying unique ways of delivering value to the ones you target. It also calls for an analysis of competitors' current strategies and a prediction of how they might change. The key is to find the sweet spot where the firm's capabilities and customers' needs align in a way that competitors cannot match.

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Graphic
The Strategic Sweet Spot

Graphic
A Hierarchy of Company Statements

Graphic
Wal-Mart's Value Proposition

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Can You Say What Your Strategy Is?

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STRATEGY & EXECUTION

Competing on Resources

David J. Collis and Cynthia A. Montgomery
July–August 1995

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Related Article
Can You Say What Your Strategy Is?

EXECUTIVE SUMMARY

How can you create and sustain a profitable strategy? Many approaches have focused managers' attention inward, urging them to build unique corporate resources and capabilities. In practice, however, identifying and developing core competence too often becomes a feel-good exercise that no one fails. Collis and Montgomery, of Harvard Business School, explain how a company's resources drive its performance in a dynamic competitive environment and offer a framework that moves strategic thinking forward in two ways. The resource-based view of the firm comprises pragmatic and rigorous market tests to determine whether a company's resources are truly valuable enough to serve as the basis for strategy; it integrates that market view with earlier insights about competition and industry structure. Where a company chooses to play will determine its profitability as much as its resources do.

The authors spell out in clear managerial terms why some competitors are more profitable than others, how to put the idea of core competence into practice, and how to develop diversification strategies that make sense. To illustrate the power of resource-based strategies, the they provide many examples of organizations—including Disney, Cooper, Sharp, and Newell—that have used corporate resources to establish and maintain competitive advantage at the business-unit level and to benefit from the attractiveness of the markets in which they compete.

STRATEGY & EXECUTION

The Core Competence of the Corporation

C.K. Prahalad and Gary Hamel
May–June 1990

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EXECUTIVE SUMMARY

In the early 1980s, GTE was positioned to become a major player in the information technology industry. NEC was much smaller and had no experience as an operating telecommunications company. Today NEC is among the top five companies in telecommunications, semiconductors, and mainframes, and GTE has become essentially a telephone company with a position in defense and lighting products.

What happened? NEC built and nurtured a group of core competencies. GTE, in contrast, couldn't agree as to which competencies to base its strategy on. It organized itself around strategic business units, which by nature underinvest in core competencies, imprison resources, and bind innovation. A company's competitiveness derives from its core competencies and core products (the tangible results of core competencies). Core competence is the collective learning in the organization, especially the capacity to coordinate diverse production skills and integrate streams of technologies. It is also a commitment to working across organizational boundaries.

Organizing around core competencies requires a radical change in corporate structure. The first step is to identify core competencies, which meet these three requirements: they provide potential access to a wide variety of markets, make a contribution to the customer benefits of the product, and are difficult for competitors to imitate. The next step is to redesign the architecture of the company and provide an impetus for learning from alliances and a focus for internal development. Management should ask: How long could we preserve our competitiveness if we did not control this core competence? How central is this core competence to customer benefits? What opportunities would be foreclosed if we lost this competence?

STRATEGY & EXECUTION

Creating Shared Value

Michael E. Porter and Mark R. Kramer
January–February 2011

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Related Article
Strategy and Society

EXECUTIVE SUMMARY

In recent years business has been criticized as a major cause of social, environmental, and economic problems. Companies are widely thought to be prospering at the expense of their communities. Trust in business has fallen to new lows, leading government officials to set policies that undermine competitiveness and sap economic growth. Business is caught in a vicious circle.

A big part of the problem lies with companies themselves, which remain trapped in an outdated, narrow approach to value creation. Focused on optimizing short-term financial performance, they overlook the greatest unmet needs in the market as well as broader influences on their long-term success. Why else would companies ignore the well-being of their customers, the depletion of natural resources vital to their businesses, the viability of suppliers, and the economic distress of the communities in which they produce and sell?

It doesn't have to be this way, say Porter and Kramer. Companies could bring business and society back together if they redefined their purpose as creating "shared value"—generating economic value in a way that also produces value for society by addressing its challenges. A shared value approach reconnects company success with social progress.

Firms can do this in three distinct ways: by reconceiving products and markets, redefining productivity in the value chain, and building supportive industry clusters at the company's locations. A number of companies known for their hard-nosed approach to business—including GE, Walmart, Nestlé, Johnson & Johnson, and Unilever—have already embarked on important initiatives in these areas. Nestlé, for example, redesigned its coffee procurement processes, working intensively with small farmers in impoverished areas who were trapped in a cycle of low productivity, poor quality, and environmental degradation. Nestlé provided advice on farming practices; helped growers secure plant stock, fertilizers, and pesticides; and began directly paying them a premium for better beans. Higher yields and quality increased the growers' incomes; the environmental impact of farms shrank; and Nestlé's reliable supply of good coffee grew significantly. Shared value was created.

STRATEGY & EXECUTION

Design Thinking

Tim Brown
June 2008

EXECUTIVE SUMMARY

In the past, design most often occurred fairly far downstream in the development process and focused on making new products aesthetically attractive or enhancing brand perception through smart, evocative advertising. Today, as innovation's terrain expands to encompass human-centered processes and services as well as products, companies are asking designers to create ideas rather than simply dress them up.

Brown, the CEO and president of the innovation and design firm IDEO, is a leading proponent of design thinking—a method of meeting people's needs and desires in a technologically feasible and strategically viable way. In this article, he offers several intriguing examples of the discipline at work. One involves a collaboration between frontline employees from health care provider Kaiser Permanente and IDEO to reengineer nursing-staff shift changes at four Kaiser hospitals. Close observation of actual shift changes, combined with brainstorming and rapid prototyping, produced new procedures and software that radically streamlined information exchange between shifts. The result was more time for nursing, better-informed patient care, and a happier nursing staff.

Another example involves the Japanese bicycle components manufacturer Shimano, which worked with IDEO to learn why 90% of American adults don't ride bikes. The interdisciplinary project team discovered that intimidating retail experiences, the complexity and cost of sophisticated bikes, and the danger of cycling on heavily trafficked roads had overshadowed people's happy memories of childhood biking. So the team created a brand concept—"Coasting"—to describe a whole new category of biking and developed in-store retailing strategies, a public relations campaign to identify safe places to cycle, and a reference design to inspire designers at the companies that went on to manufacture Coasting bikes.

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The Explainer: Video Design Thinking

Related Article Design for Action

The Explainer: Design Thinking

Popularized by David M. Kelley and Tim Brown of IDEO and Roger Martin of the Rotman School, design thinking has three major stages.

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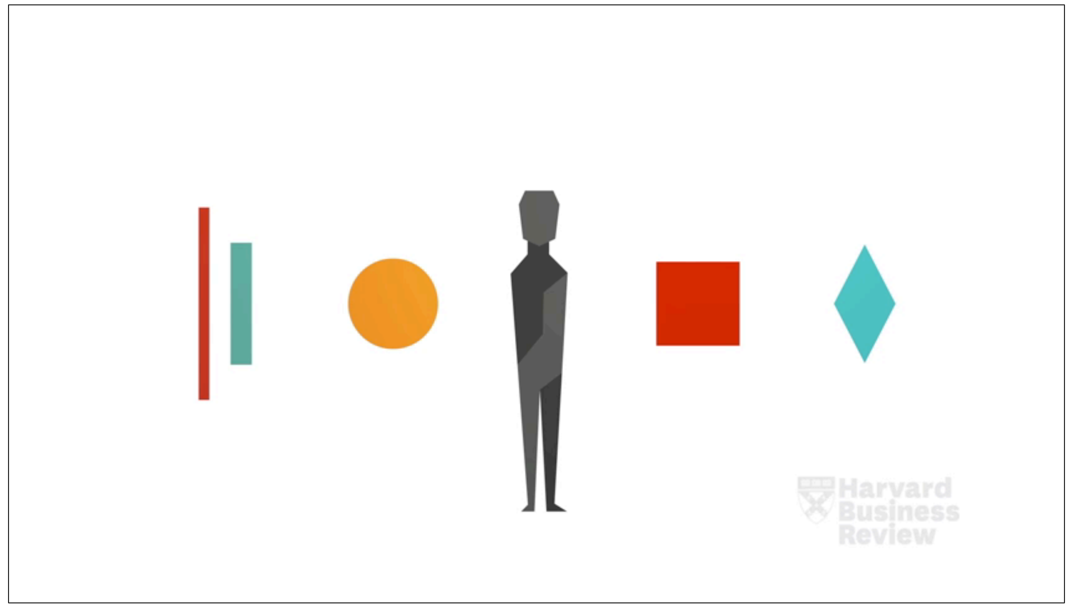

STRATEGY & EXECUTION

How GE Is Disrupting Itself

Jeffrey R. Immelt, Vijay Govindarajan, and Chris Trimble
October 2009

EXECUTIVE SUMMARY

For decades, General Electric and other industrial-goods manufacturers based in rich countries grew by developing high-end products at home and distributing them globally, with some adaptations to local conditions—an approach known as glocalization. Now they must do an about-face and learn to bring low-end products created specifically for emerging markets into wealthy markets.

That process, called reverse innovation, isn't easy to master. It requires a decentralized, local-market focus that clashes with the centralized, product-focused structure that multinationals have evolved for glocalization. In this article, Immelt, GE's CEO, and Govindarajan and Trimble, of Dartmouth's Tuck School of Business, describe how GE has dealt with that challenge.

An anomaly within the ultrasound unit of GE Healthcare provided the blueprint. Because China's poorly funded rural clinics couldn't afford the company's sophisticated ultrasound machines, a local team built a cheap, portable ultrasound out of a laptop equipped with special peripherals and software. It not only became a hit in China but jump-started growth in the developed world by pioneering applications for situations in which portability is critical, such as accidents.

The team succeeded because a top executive championed it and gave it unprecedented autonomy. GE has since set up more than a dozen similar operations in an effort to expand beyond the premium segments in developing countries—and to preempt emerging giants from disrupting GE's sales at home.

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STRATEGY & EXECUTION

The Explainer: Reverse Innovation

Start with developing markets and work your way backward.

VIDEO

STRATEGY & EXECUTION

Managing Differences: The Central Challenge of Global Strategy

Pankaj Ghemawat
March 2007

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Related Article
Distance Still Matters

EXECUTIVE SUMMARY

The main goal of any international strategy should be to manage the large differences that arise at the borders of markets. Yet executives often fail to exploit market and production discrepancies, focusing instead on the tensions between standardization and localization.

In this article, Pankaj Ghemawat presents a new framework that encompasses all three effective responses to the challenges of globalization. He calls it the AAA Triangle. Through *adaptation,* companies seek to boost revenues and market share by maximizing their local relevance. Through *aggregation,* they attempt to deliver economies of scale by creating regional, or sometimes global, operations. And through *arbitrage,* they exploit disparities between national or regional markets, often by locating parts of the supply chain in different places—for instance, call centers in India, factories in China, and retail shops in Western Europe. Ghemawat draws on several examples that illustrate how organizations use and balance these strategies and describes the trade-offs they make as they do so.

Because most enterprises should draw from all three A's to some extent, the framework can be used to develop a summary scorecard indicating how well the company is globalizing. However, given the tensions among the strategies, it's not enough simply to tick off the corresponding boxes. Strategic choice requires some degree of prioritization—and the framework can help with that as well. While it is possible to make progress on all three strategies, companies usually must focus on one or two when trying to build competitive advantage.

STRATEGY & EXECUTION

Marketing Myopia

Theodore Levitt
July–August 1960

EXECUTIVE SUMMARY

At some point in its development, every industry can be considered a growth industry, based on the apparent superiority of its product. But in case after case, industries have fallen under the shadow of mismanagement. What usually gets emphasized is selling, not marketing. This is a mistake, because selling focuses on the needs of the seller, whereas marketing concentrates on the needs of the buyer.

In this widely quoted and anthologized article, Theodore Levitt argues that "the history of every dead and dying 'growth' industry shows a self-deceiving cycle of bountiful expansion and undetected decay." But, as he illustrates, memories are short.

The railroads serve as an example of an industry whose failure to grow is due to a limited market view. Those behind the railroads are in trouble not because the need for passenger transportation has declined or even because that need has been filled by cars, airplanes, and other modes of transport. Rather, the industry is failing because those behind it assumed they were in the railroad business rather than the transportation business. They were railroad oriented instead of transportation oriented, product oriented instead of customer oriented.

For companies to ensure continued evolution, they must define their industries broadly to take advantage of growth opportunities. They must ascertain and act on their customers' needs and desires, not bank on the presumed longevity of their products. In short, the best way for a firm to be lucky is to make its own luck.

An organization must learn to think of itself not as producing goods or services but as doing the things that will make people want to do business with it. And in every case, the chief executive is responsible for creating an environment that reflects this mission.

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Marketing Myopia

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STRATEGY & EXECUTION

The Explainer: Marketing Myopia

Theodore Levitt's classic theory—in under two minutes.

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STRATEGY & EXECUTION

Reinventing Your Business Model

Mark W. Johnson, Clayton M. Christensen, and Henning Kagermann
December 2008

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Slide Deck Reinventing Your Business Model

EXECUTIVE SUMMARY

Why is it so difficult for established companies to pull off the new growth that business model innovation can bring? Here's why: They don't understand their current business model well enough to know whether it would suit a new opportunity or hinder it, and they don't know how to build a new model when they need one.

Drawing on their vast knowledge of disruptive innovation and experience in helping established companies capture game-changing opportunities, consultant Johnson, Harvard Business School professor Christensen, and SAP co-CEO Kagermann set out the tools that executives need to do both.

Successful companies already operate according to a business model that can be broken down into four elements: a customer value proposition that does an important job for the customer in a better way than competitors' offerings do; a profit formula that lays out how the company makes money delivering the value proposition; and the key resources and key processes needed to deliver that proposition.

Game-changing opportunities deliver radically new customer value propositions: They fulfill a job to be done in a dramatically better way (as P&G did with its Swiffer mops), solve a problem that's never been solved before (as Apple did with its iPod and iTunes electronic entertainment delivery system), or serve an entirely unaddressed customer base (as Tata Motors is doing with its Nano—the $2,500 car aimed at Indian families who use scooters to get around). Capitalizing on such opportunities doesn't always require a new business model: P&G, for instance, didn't need a new one when it leveraged its product innovation strengths to develop the Swiffer.

A new model is often needed, however, to leverage a new technology (as in Apple's case); is generally required when the opportunity addresses an entirely new group of customers (as with the Nano); and is surely in order when an established company needs to fend off a successful disruptor (as the Nano's competitors may now have to do).

STRATEGY & EXECUTION

The Right Game: Use Game Theory to Shape Strategy

Adam M. Brandenburger and
Barry J. Nalebuff
July–August 1995

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EXECUTIVE SUMMARY

Business is a high-stakes game. The way we approach this game is reflected in the language we use to describe it. Business language is full of expressions borrowed from the military and from sports. Unlike war and sports, however, business is not about winning and losing. Companies can succeed without requiring others to fail. And they can fail no matter how well they play if they play the wrong game.

The essence of business success lies in making sure you're playing the right game. How do you know whether it's the right game? What can you do if it's the wrong game? To help managers answer those questions, the authors have developed a framework that draws on the insights of game theory. The primary insight of game theory is the importance of focusing on others—of putting yourself in the shoes of other players and trying to play out all the reactions to their actions as far ahead as possible. By adopting this perspective, a company may, for example, discover that its chances for success are greater if it creates a win-win, rather than a win-lose, situation with other players.

In other words, companies should consider both cooperative and competitive ways to change the game. Who are the participants in the game of business? The authors introduce a schematic map that represents all the players and all the interdependencies among them. Drawing this map for your business is the first step toward changing the game. The second step is identifying all five elements of the game—players, added values, rules, tactics, and scope—and changing one or more of them. By using these tools, the authors say, companies can design a game that's right for them.

STRATEGY & EXECUTION

Six Habits of Merely Effective Negotiators

James K. Sebenius
April 2001

EXECUTIVE SUMMARY

Most executives know the basics of negotiation; some are spectacularly adept. Yet even experienced negotiators routinely leave money on the table, end up in deadlock, damage relationships, or allow conflicts to spiral. They fall prey to common mistakes that keep them from solving the right negotiation problem.

In any negotiation, each side ultimately chooses between two options: accepting a deal or taking its best no-deal option—that is, the course of action it would take if no deal was possible. As a negotiator, you seek to advance your interests by persuading the other side to say yes to a proposal that meets your interests better than your best no-deal option would. Because the other side will say yes only to a proposal that meets its own interests better than its best no-deal option would, you must understand and shape your counterpart's decision so that it chooses in its own interests what you want.

Far from being exercises in manipulation, understanding your counterpart's interests and shaping the decision so that the other side agrees to a proposal for its own reasons are the keys to jointly creating and claiming sustainable value from a negotiation. In this article, James Sebenius compares good negotiating practice with bad, providing examples from the business world and insights from 50 years of research and analysis on negotiation. He describes six common mistakes that result in merely effective negotiation: neglecting your counterpart's problem, letting price bulldoze other interests, letting positions drive out interests, searching too hard for common ground, neglecting no-deal alternatives, and failing to correct for skewed vision.

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STRATEGY & EXECUTION

Strategies for Two-Sided Markets

Thomas Eisenmann, Geoffrey Parker, and Marshall W. Van Alstyne

October 2006

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EXECUTIVE SUMMARY

If you listed the blockbuster products and services that have redefined the global business landscape, you'd find that many of them tie together two distinct groups of users in a network. Case in point: The most important innovation in financial services since World War II is almost certainly the credit card, which links consumers and merchants. The list would also include newspapers, HMOs, and computer operating systems—all of which serve what economists call two-sided markets or networks. Newspapers, for instance, bring together subscribers and advertisers; HMOs link patients to a web of health care providers and vice versa; operating systems connect computer users and application developers.

Two-sided networks differ from traditional value chains in a fundamental way. In the traditional system, value moves from left to right: To the left of the company is cost; to the right is revenue. In two-sided networks, cost and revenue are both to the left and to the right, because the "platform" has a distinct group of users on each side. The platform product or service incurs costs in serving both groups and can collect revenue from each, although one side is often subsidized.

Because of what economists call network effects, these platform products enjoy increasing returns to scale, which explains their extraordinary impact. Yet most firms still struggle to establish and sustain their platforms. Their failures are rooted in a common mistake: In creating strategies for two-sided networks, managers typically rely on assumptions and paradigms that apply to products without network effects. As a result, they make many decisions that are wholly inappropriate for the economics of their industries. In this article, the authors draw on recent theoretical work to guide executives negotiating the challenges of two-sided networks.

STRATEGY & EXECUTION

Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility

Michael E. Porter and
Mark R. Kramer
December 2006

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EXECUTIVE SUMMARY

Governments, activists, and the media have become adept at holding companies to account for the social consequences of their actions. In response, corporate social responsibility has emerged as an inescapable priority for business leaders in every country.

Frequently, though, CSR efforts are counterproductive, for two reasons. First, they pit business against society, when in reality the two are interdependent. Second, they pressure companies to think of corporate social responsibility in generic ways instead of in the way most appropriate to their individual strategies.

The fact is, the prevailing approaches to CSR are so disconnected from strategy as to obscure many great opportunities for companies to benefit society. What a terrible waste. If corporations were to analyze their opportunities for social responsibility using the same frameworks that guide their core business choices, they would discover, as Whole Foods Market, Toyota, and Volvo have done, that CSR can be much more than a cost, a constraint, or a charitable deed—it can be a potent source of innovation and competitive advantage.

In this article, Michael Porter and Mark Kramer propose a fundamentally new way to look at the relationship between business and society that does not treat corporate growth and social welfare as a zero-sum game. They introduce a framework that individual companies can use to identify the social consequences of their actions; to discover opportunities to benefit society and themselves by strengthening the competitive context in which they operate; to determine which CSR initiatives they should address; and to find the most effective ways of doing so. Perceiving social responsibility as an opportunity rather than as damage control or a PR campaign requires dramatically different thinking—a mindset, the authors warn, that will become increasingly important to competitive success.

STRATEGY & EXECUTION

The Five Competitive Forces That Shape Strategy

Michael E. Porter
January 2008

EXECUTIVE SUMMARY

In 1979, a young associate professor at Harvard Business School published his first article for HBR, "How Competitive Forces Shape Strategy." In the years that followed, Michael Porter's explication of the five forces that determine the long-run profitability of any industry has shaped a generation of academic research and business practice. In this article, Porter undertakes a thorough reaffirmation and extension of his classic work of strategy formulation, which includes substantial new sections showing how to put the five forces analysis into practice.

The five forces govern the profit structure of an industry by determining how the economic value it creates is apportioned. That value may be drained away through the rivalry among existing competitors, of course, but it can also be bargained away through the power of suppliers or the power of customers or be constrained by the threat of new entrants or the threat of substitutes. Strategy can be viewed as building defenses against the competitive forces or as finding a position in an industry where the forces are weaker. Changes in the strength of the forces signal changes in the competitive landscape critical to ongoing strategy formulation.

In exploring the implications of the five forces framework, Porter explains why a fast-growing industry is not always a profitable one, how eliminating today's competitors through mergers and acquisitions can reduce an industry's profit potential, how government policies play a role by changing the relative strength of the forces, and how to use the forces to understand complements. He then shows how a company can influence the key forces in its industry to create a more favorable structure for itself or to expand the pie altogether. The five forces reveal why industry profitability is what it is. Only by understanding them can a company incorporate industry conditions into its strategy.

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The Explainer: Porter's Five Forces

The competitive forces that shape strategy — in under two minutes

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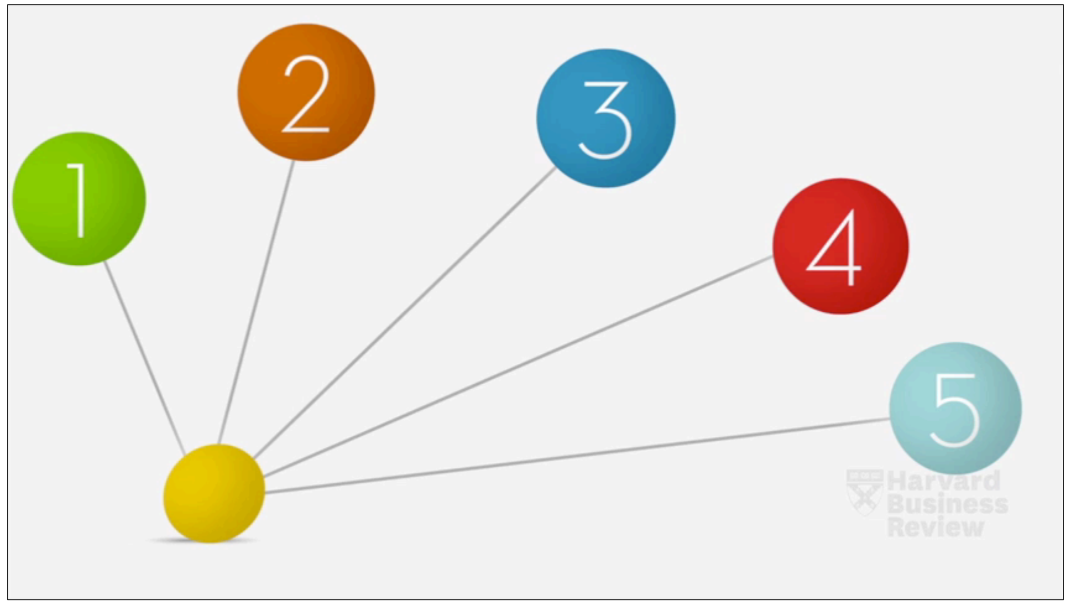

STRATEGY & EXECUTION

What Is Strategy?

Michael E. Porter
November–December 1996

EXECUTIVE SUMMARY

Today's dynamic markets and technologies have called into question the sustainability of competitive advantage. Under pressure to improve productivity, quality, and speed, managers have embraced tools such as TQM, benchmarking, and re-engineering. Dramatic operational improvements have resulted, but rarely have these gains translated into sustainable profitability. And gradually the tools have taken the place of strategy.

In his five-part article, Michael Porter explores how that shift has led to the rise of mutually destructive competitive battles that damage the profitability of many companies. As managers push to improve on all fronts, they move further away from viable competitive positions. Porter argues that operational effectiveness, although necessary to superior performance, is not sufficient, because its techniques are easy to imitate. In contrast, the essence of strategy is choosing a unique and valuable position rooted in systems of activities that are much more difficult to match.

Porter thus traces the economic basis of competitive advantage down to the level of the specific activities a company performs. Using cases such as Ikea and Vanguard, he shows how making trade-offs among activities is critical to the sustainability of a strategy. Whereas managers often focus on individual components of success such as core competencies or critical resources, Porter shows how managing fit across all a company's activities enhances both competitive advantage and sustainability. While stressing the role of leadership in making and enforcing clear strategic choices, he also offers advice on how companies can reconnect with strategies that have become blurred over time.

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Book
Understanding Michael Porter: The Essential Guide to Competition and Strategy

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STRATEGY & EXECUTION

When to Ally and When to Acquire

Jeffrey H. Dyer, Prashant Kale, and Harbir Singh
July–August 2004

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EXECUTIVE SUMMARY

Acquisitions and alliances are two pillars of growth strategy. But most businesses don't treat the two as alternative mechanisms for attaining goals. Consequently, companies take over firms they should have collaborated with, or vice versa, and make a mess of both acquisitions and alliances.

It's easy to see why companies don't weigh the relative merits and demerits of acquisitions and alliances before choosing horses for courses. The two strategies differ in many ways: Acquisition deals are competitive, based on market prices, and risky; alliances are cooperative, negotiated, and not so risky. Companies habitually make acquisitions to increase scale or cut costs and use partnerships to enter new markets, customer segments, and regions. Moreover, a company's initial experiences often turn into blinders. If the firm pulls off an alliance or two, it tends to enter into alliances even when circumstances demand acquisitions.

Organizational barriers, too, stand in the way. In many companies, an M&A group, which reports to the finance head, handles acquisitions, while a separate business development unit looks after alliances. The two teams work in different locations, jealously guard turf, and in effect prevent companies from comparing the advantages and disadvantages of the two strategies.

But companies could improve their results, the authors argue, if they compared the strategies to determine which is best suited to the situation at hand. Cisco and other firms that use acquisitions and alliances appropriately grow faster than rivals do. The authors provide a framework to help organizations systematically decide between acquisition and alliance by analyzing three factors: the resources and synergies they desire, the marketplace they compete in, and their competencies at collaborating.

TECHNOLOGY & OPERATIONS

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TECHNOLOGY & OPERATIONS

Decoding the DNA of the Toyota Production System

Steven Spear and H. Kent Bowen
September–October 1999

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EXECUTIVE SUMMARY

The Toyota Production System is a paradox. On the one hand, every activity, connection, and production flow in a Toyota factory is rigidly scripted. On the other, Toyota's operations are enormously flexible and responsive to customer demand. How can that be?

After an extensive four-year study of the system in more than 40 plants, the authors came to understand that at Toyota it's the very rigidity of the operations that makes the flexibility possible. That's because the company's operations can be seen as a continual series of controlled experiments. Whenever Toyota defines a specification, it is establishing a hypothesis that is then tested through action. This approach—the scientific method—is not imposed on workers, it's ingrained in them. And it stimulates them to engage in the kind of experimentation that is widely recognized as the cornerstone of a learning organization.

The Toyota Production System grew out of the workings of the company over 50 years, and it has never actually been written down. Making the implicit explicit, the authors lay out four principles that show how Toyota sets up all its operations as experiments and teaches the scientific method to its workers. The first rule governs how workers do their work. The second, how they interact with one another. The third governs how production lines are constructed. And the fourth, how people learn to improve. Every activity, connection, and production path designed according to these rules must have built-in tests that signal problems immediately. And it is the continual response to those problems that makes this seemingly rigid system so flexible and adaptive to changing circumstances.

TECHNOLOGY & OPERATIONS

Disruptive Technologies: Catching the Wave

Joseph L. Bower and Clayton M. Christensen
January–February 1995

EXECUTIVE SUMMARY

One of the most consistent patterns in business is the failure of leading companies to stay at the top of their industries when technologies or markets change. Why is it that established companies invest aggressively—and successfully—in the technologies necessary to retain their current customers but then fail to make the technological investments that customers of the future will demand?

The fundamental reason is that leading companies succumb to one of the most popular, and valuable, management dogmas: They stay close to their customers. Customers wield extraordinary power in directing a company's investments. But what happens when a new technology emerges that customers reject because it doesn't address their needs as effectively as the company's current approach?

In an ongoing study of technological change, the authors found that most established companies are consistently ahead of their industries in developing and commercializing new technologies as long as those technologies address the next-generation-performance needs of their customers. However, an industry's leaders are rarely in the forefront of commercializing new technologies that don't initially meet the functional demands of mainstream customers and appeal only to small or emerging markets.

To remain at the top of their industries, managers must be able to spot the technologies that fall into this category. To pursue those technologies, they must protect them from processes and incentives that are geared to serving mainstream customers. And the only way to do that is to create organizations that are completely independent of the mainstream business.

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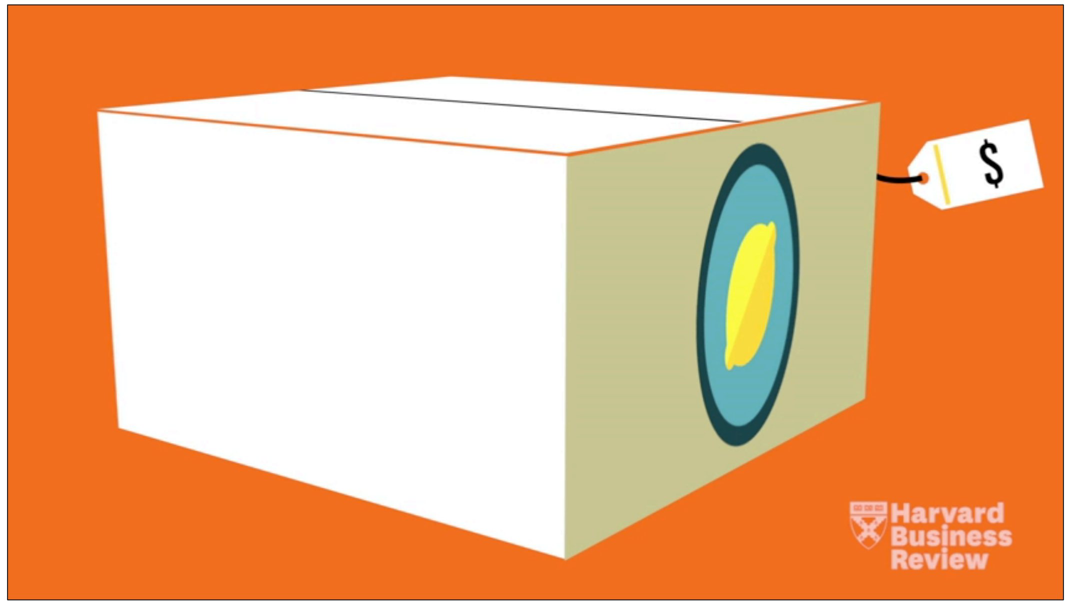

TECHNOLOGY & OPERATIONS

What Is the Right Supply Chain for Your Product?

by Marshall L. Fisher
March–April 1997

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EXECUTIVE SUMMARY

Never has so much technology and brainpower been applied to improving supply chain performance. Point-of-sale scanners allow companies to capture the customer's voice. Electronic data interchange lets all stages of the supply chain hear that voice and react to it by using flexible manufacturing, automated warehousing, and rapid logistics. And new concepts such as efficient consumer response, accurate response, mass customization, and agile manufacturing offer models for applying the new technology.

But the performance of many supply chains has never been worse. In some cases, costs have risen to new levels because of adversarial relations between supply chain partners and dysfunctional industry practices such as an over-reliance on price promotions. And supply chains in many industries suffer from an excess of some products and a shortage of others because of an inability to predict demand.

Why haven't the new ideas and technologies led to improved performance? Because, Marshall Fisher says, companies lack a framework for deciding which ones are best for their particular situation. Fisher offers such a framework to help managers understand the nature of the demand for their products and devise the supply chain that can best satisfy that demand.

Once products have been classified on the basis of their demand patterns, they fall into one of two categories: They are either primarily functional or primarily innovative. And each type of product requires a distinctly different kind of supply chain. The root cause of the problems plaguing many supply chains, the author contends, is a mismatch between the type of product and the type of supply chain.