Best Business Books 2012

BY ALICE SCHROEDER, PHIL ROENZWEIG, SHAUN HOLLIDAY, KRISZTINA “Z” HOLLY,
J. PHILIP LATHROP, SALLY HELGESEN, AND JAMES O’TOOLE
CONTENTS

Biography
Virtuosity Squared
Alice Schroeder
56

Strategy
Considering Competition
Phil Rosenzweig
61

Marketing
Brand New
Shaun Holliday
66

s+b’s TOP SHELF
s+b’s TOP SHELF
s+b’s TOP SHELF

Jean Edward Smith,
Eisenhower in War
and Peace (Random
House, 2012)

Amitava Chattopadhyay
and Rajeev Batra, with
Aysegul Ozsomer,
The New
Emerging Market Multinationals: Four Strategies for
Disrupting Markets and
Building Brands (McGraw-
Hill, 2012)

Jim Stengel, Grow:
How Ideals Power
Growth and Profit at
the World’s Greatest
Companies (Crown
Business, 2011)

Illustrations by Harry Campbell
and improved! This promise gets slapped on business books as often as on household cleansers. Many books are new each year, but those with genuine insight and value are very rare indeed.

We take the time to find them. In *strategy*+*business*’s Best Business Books 2012, our team of distinguished experts — some veterans of this annual special section, namely James O’Toole, Sally Helgesen, Phil Rosenzweig, and “Z” Holly, and some newcomers, Alice Schroeder, J. Philip Lathrop, and Shaun Holliday — review 21 tomes published between the autumn of 2011 and the autumn of 2012 that fulfill their promise.

Be sure to take a close look at our Top Shelf selections — our reviewers’ picks as the best of this year’s best business books. They include a new appraisal of Dwight David Eisenhower that will prompt you to consider your own effectiveness as a leader, a realistic plan for improving healthcare that eschews political rhetoric for practical solutions, an exploration of cloud computing that gets beyond the surface technological story to look more deeply at how it will change business practices, and four more books that merit your time and attention.

— Theodore Kinni

<table>
<thead>
<tr>
<th>Innovation</th>
<th>Healthcare</th>
<th>Organizational Culture</th>
<th>Capitalism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Context Is King</td>
<td>Beyond the Rhetoric of Reform</td>
<td>Small Talk</td>
<td>Of Markets and Morals</td>
</tr>
<tr>
<td>Krisztina “Z” Holly</td>
<td>J. Philip Lathrop</td>
<td>Sally Helgesen</td>
<td>James O’Toole</td>
</tr>
<tr>
<td>70</td>
<td>74</td>
<td>78</td>
<td>83</td>
</tr>
</tbody>
</table>

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**s+b’s TOP SHELF**

- **Innovation**
  - *Context Is King*
  - *Krisztina “Z” Holly*
  - *70*

- **Healthcare**
  - *Beyond the Rhetoric of Reform*
  - *J. Philip Lathrop*
  - *74*

- **Organizational Culture**
  - *Small Talk*
  - *Sally Helgesen*
  - *78*

- **Capitalism**
  - *Of Markets and Morals*
  - *James O’Toole*
  - *83*

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**Thomas M. Koulopoulos**, *Cloud Surfing: A New Way to Think about Risk, Innovation, Scale, and Success* (Bibliomotion, 2012)


Virtuosity Squared

by Alice Schroeder

GREAT IDEAS OFTEN EMERGE from the collision of two disciplines. So, it seems, do great leaders. The subjects of this year’s best biographies — Dwight Eisenhower, who led two of the world’s largest organizations, the Allied forces in Europe during World War II and the U.S. government; Steve Jobs, who built the world’s most valuable company; and Clarence Birdseye, a self-taught biologist who pioneered a technology that revolutionized food production — each illustrate how often individual success is rooted in a merging of disciplinary virtuosity.

Eisenhower combined political genius with superb executive skills. Jobs wed the sensibility of an aesthete to an innovator’s appreciation of technology. As for Birdseye, he once said that he “was not cut out for a career in pure science and wanted to get into some field where [he] could apply scientific knowledge to an economic opportunity.”

Politics and Management

Eisenhower in War and Peace, Jean Edward Smith’s powerful story of the 34th U.S. president, is my choice for the best biography of the year. Dwight David Eisenhower was as close to a man for all seasons as we have had among presidents. He successfully led the military, the government, and a university.

Smith portrays Eisenhower as a decisive yet thoughtful leader who had a genius for manipulating written and unwritten rules, bureaucracy, and social maps. He made the U.S. presidency look so easy that “Ike” himself has receded into a faint image of an avuncular leader who presided over a dull, prosperous era. Smith corrects numerous errors in accounts by others and gives us Eisenhower in full: not only the most popular president in modern U.S. history, but also one of the most effective.
Eisenhower ended the unwinnable war in Korea, Smith reminds us, “with honor and dignity,” and he sent the Seventh Fleet to protect Formosa from invasion by China. On the domestic front, he tamed inflation, balanced the federal budget, and quelled unemployment with the massive public works project of building the interstate highway system. Eisenhower unwound the excesses of McCarthyism, ended military foot-dragging over desegregation, and appointed the judge who gave Rosa Parks her seat in the front of the bus. In one of his most difficult decisions, he sent the 101st Airborne Division to Little Rock to put down defiance of a court order to desegregate the schools. Of course, he also made mistakes — we have Eisenhower to thank for the CIA coup that overturned a government in Iran, with repercussions still felt today.

Perhaps Eisenhower’s most significant legacy, though, was to show the value of cooperation and restraint. He thawed the Cold War, beat back attempts at gunboat diplomacy by U.S. allies, and worked easily across party lines. He also crushed two attempts by the National Security Council to use atomic weapons after World War II, insisting on a policy of deterrence instead.

Nothing in Eisenhower’s early life pointed to his brilliant future. He was born in 1890, the third of seven sons raised by a pair of religious eccentrics in Abilene, Kan. With no funds to attend college, Eisenhower made the most of a lucky break — the beginning of a lifetime pattern — when he won a competitive examination for an appointment to West Point, an opportunity usually given to those with political connections.

At West Point, Eisenhower graduated 61st out of 164 cadets in his class, where he was known mostly for his practical jokes and football skills. His early military career was undistinguished until he took a course in the Army’s first tank school and realized the new technology would revolutionize battle tactics. As a result, less than three years out of West Point, Eisenhower was charged with creating the first stateside tank training facility at Pennsylvania’s Camp Colt, where he commanded 10,000 men and 600 officers. There, Eisenhower’s logistical skills brought him to the attention of the War Department.

Smith is adept at painting the picture of this and other episodes that illustrate concretely how Eisenhower learned to be a leader through a combination of management skills and personal and political diplomacy. It was at Camp Colt that Eisenhower first displayed a talent for befriending powerful people, many of whom were his diametric opposites. One of the delights of Eisenhower lies in following the maneuvers of the man’s lifelong campaign to captivate everyone who crossed his path. The egotistical, flamboyant George Patton was Eisenhower’s first major conquest, and Patton promptly handed him another by introducing him to Brigadier General Fox Conner.

Conner wielded immense power as chief of staff to General John J. Pershing, who had led U.S. forces in World War I. Conner became entranced with Eisenhower, and trained him in military history, psychology, and “the art of persuasion.” In a dramatic example of the power of mentorship, he rescued Eisenhower from trouble, intervened on his behalf over and over, and arranged for him to work directly for Pershing.

Luck by all accounts featured prominently in Eisenhower’s career — so much so that Patton declared his initials D.D. stood for “Divine Destiny.” Yet Smith illustrates repeatedly that Eisenhower advanced because he never wasted his opportunities. Under Pershing, he exhaustively studied the battlefields of World War I. He graduated first in his class after winning admission to the exclusive Army War College. His staff work sent him to key strategic posts in Paris, the Philippines, and the Panama Canal Zone. In another lucky stroke, Eisenhower was put in charge of creating a wartime mobilization plan that brought him into contact with financiers and businessmen.

By the start of World War II, Eisenhower had served in the military for 27 years. His career progress was glacial by the standards of today’s wireless world. Yet one of Smith’s insights is that the military’s then rigid promotion system gave its officers experience and authority, which encouraged independence of thought.

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When George Marshall chose Eisenhower as chief of the army’s war plans division in 1942, Eisenhower was a protégé of nearly every important army general officer, and understood mobilization in a European theater better than anyone.

Smith details Eisenhower’s ascent from staff officer to wartime leader of the Allied forces as a triumph of executive ability, political acumen, and judgment honed through harsh experience of battles barely won. Eisenhower was a weak strategist. His skill at building consensus served him poorly as a field commander, but helped him become a military statesman who held together a fractious alliance that included FDR, Winston Churchill, Joseph Stalin, Charles de Gaulle, and a handful of strong-willed generals. The toughest, loneliest decision Eisenhower faced was whether Allied forces should cross the English Channel on June 6, 1944. Smith’s account of Operation Overlord is absorbing both as a military story and as a personal drama. Eisenhower staked his career on the decision to launch D-Day, and it led to the victory that catapulted him into the White House.

Eisenhower is an evenhanded account that reveals the sources and reasoning behind its conclusions, a signature of a great historian and confident researcher. Smith does not shy from showing Eisenhower’s flaws, including a fundamental impenetrability that occasionally turned to coldness. Smith lays out his passionate wartime affair with his bright, attractive British driver, Kay Summersby. While Eisenhower contemplates marrying Summersby, he gushes a flood of insincere letters to his wife, Mamie: “I desperately miss you….” Then he drops Summersby by sending her an impersonal note when he returns home after the war to re-embrace Mamie — and his ambitions. “George Patton would have said a warmer goodbye to his horse,” notes Smith.

After the war, Eisenhower, who claimed he wanted to semi-retire and live on a farm, took on high-profile work while Harry S. Truman finished out his second term as president. He set Columbia University’s fiscal house in order as its president and served as supreme commander of NATO. When calls for him to run for president reached a crescendo, Eisenhower set what must be a record for coyness by lingering in Europe with NATO rather than filing in the early primaries. His sponsors — determined as always — won him the nomination through a brokered convention that resembled a coup. Once more, Eisenhower made the most of his opportunity; during the eight years he spent in the White House, his legacies multiplied as fast as his popularity ratings rose.

Smith’s magisterial book sparkles throughout with lessons from Eisenhower’s life and career. Late in his years, the former president warned that the U.S. must “avoid becoming a community of dreadful fear and hate, and be, instead, a proud confederation of mutual trust and respect.” Forging these confederations was how Eisenhower changed the world. It’s a worthwhile lesson to consider as we face the challenges of our own age.

Aesthetics and Technology
Walter Isaacson opens Steve Jobs with the tale of a wavering courtship in which Jobs first seeks him out to write his biography, then becomes skittish, and finally re-commits when his pancreatic cancer advances and it is clear Jobs’s story will soon end. Jobs spoke openly to Isaacson of his enemies, friends, erstwhile friends, and, to a lesser degree, himself. Others filled in the rest of the portrait of one of technology’s most charismatic titans — along with providing a much-needed check on Jobs’s tendency to create his own reality.

Jobs saw his importance in his ability to stand at the intersection of the humanities and the sciences, a theme that he suggests and Isaacson adopts for the biography. By this, Jobs did not mean he simply stood there; he plainly saw himself as transmuting these disciplines through the alchemy of his genius into a perfected whole. (Jobs never claimed to be modest.) He cared about the tiniest details and relied on a powerful intuition to bring emotional resonance to designs that he insisted be executed flawlessly. Trying to copy Jobs, one source observes, would be like trying to copy Picasso by using red paint. In fact, the lessons in his story are most powerful when considered as a cautionary tale.

Steven Paul Jobs was born in 1955, the son of an
unmarried Wisconsin university student and a Syrian Muslim teaching assistant, who put him up for adoption. His adoptive father, Paul Jobs, a high school dropout with a passion for mechanics and woodworking, instilled in his son an appreciation for the sanctity of craftsmanship. Growing up in what would become Silicon Valley, the boy was surrounded by friends whose parents were engineers.

To his credit, Isaacson makes clear that Jobs was by no means destined for greatness. Had he been raised as a Syrian–American by his “dreamy, peripatetic” birth mother in Wisconsin, there is no telling how his life would have turned out. As it did transpire, Jobs often was his own worst enemy. This point is made unmistakably, and entertainingly, through accounts of his bohemian, bizarre, selfish, willful, and cruel behavior.

Early on, Jobs forces his much-loved adoptive parents to cripple themselves financially by sending him to expensive Reed College — then bristles at the concept of a curriculum, drops out after six months, hangs around auditing classes that suit his aesthetic tastes (such as modern dance), and lives on money scrounged by cashing in soda bottles for deposits. (Eventually, he gave his parents Apple stock.) The younger Jobs trips on LSD, pirates Bob Dylan tapes, flirts with the Hare Krishna movement, and refuses to bathe. At one point, a Hindu holy man in the Himalayas spots, or perhaps smells, Jobs, and grabs him in order to lather and shave him. Unfortunately, the lesson did not stick.

Jobs would later attribute much of his success to this period, even making the preposterous claim that had he not audited a calligraphy class, “it’s likely that no personal computer” would have had multiple typefaces or proportionally spaced fonts. Fortunately, he soon began working with Steve Wozniak, a former high school classmate who had a sizable tolerance for grandiosity. The two had bonded as teenagers over an idea spotted in an Esquire article by Wozniak’s mother that described how hackers pirated free phone calls. Wozniak built a circuit that could control AT&T’s routers, which Jobs figured out how to package and market at a 78 percent profit margin. This experience taught the two teenagers they could “control billions of dollars’ worth of infrastructure,” writes Isaacson. It also, says Wozniak, “gave us a taste of what we could do with my engineering skills and his vision.” It was the first of many visions based on breaking rules.

Reunited in 1976, the pair founded Apple Computer in the proverbial garage with US$1,300, with Wozniak as engineer and Jobs in the role he would eventually settle into permanently: visionary and promoter. Jobs’s journey as a manager and business partner covered much rougher ground. Among the many unfortunate episodes are his ungracious treatment of Wozniak and his love–hate (mostly hate) relationship with Bill Gates, who was generous in his comments about Jobs for the book, only to be repaid with insults. Jobs’s greatest business error took place when Apple went through a Silicon Valley rite of passage, the transition from the founder–CEO to professional management. Jobs lost the confidence of CEO John Sculley through his insistence on (mis)managing the Macintosh division, which led to his ouster as chairman. But being rejected by his own brainchild at age 30 focused Jobs on what mattered. The ensuing years brought the NeXT computer; animation by Pixar; and eventually, a second chance at Apple that yielded iTunes, iPhoto, the iPod, the iPhone, and the iPad.

Isaacson details these stories as evolutionary rungs on a ladder of creativity. One innovation follows another, as Jobs and his company ascend to iconic heights. Each of these products also came to market accompanied by lots of collateral damage. Jobs’s relationships in business were complicated by the fact that he was, as a contemporary describes, “full of broken glass” as a result of his early abandonment to adoption. He was “the opposite of loyal…anti-loyal,” according to a colleague: a tyrant at work and a “frighteningly cold,” rejecting narcissist in his personal life, who attracted people through brief displays of interest, only to mistreat and abandon them.

Implicitly, Steve Jobs raises the question of whether indifference to social norms and a degree of madness are requirements of creative genius. As he rises, Jobs lives on fruit to ward off mucus, soaks his feet in the toilet to relieve stress, offends his colleagues with his filthy body, falls into fits of tears during business meetings, and turns orange from eating only carrots.

In a sense, Jobs is the un-Eisenhower. He is indifferent to working through procedures and following rules, including the most basic rule of acknowledging reality, which Isaacson describes in multiple breathtaking scenes of lying and self-deception. Seductive as a Svengali-like, “mesmerizing but corrupt” preacher, Jobs enchants business partners into making deals that he revokes on a whim. Outraged at the thought of anyone stealing his ideas, he takes pride in pilfering intellectual property from Xerox. Stopped for speeding, he honks...
at the policeman for not writing the ticket fast enough. Because Jobs’s rule-breaking attitude is part of his success, these stories are amusing, up to a point. But when he horrifies his friends and family by refusing conventional medical treatment for a curable form of cancer, his willfulness becomes a tragic flaw.

Jobs’s lack of introspection complicated Isaacson’s task. (At one point, he simply ignores a question about why he felt a kinship with two belligerent, driven — and doomed — fictional characters, King Lear and Captain Ahab.) One can’t help but wonder how the timing affected the interviews, as well as what fruit might remain on the tree in the form of sources who did not cooperate.

The biographer’s portrait, despite stories and commentaries that soften the edges, is of Jobs as detestable genius. His charisma apparently made some people loyal to him. But Jobs, in his own words as quoted in the book, is anything but charismatic, which means readers who encounter him on paper are unlikely to feel it.

Fifty years from now, when the iPad and the iPhone are superseded, what will people remember about Steve Jobs? His crystalline focus. His defining taste. His perfectionism. His intuitive salesmanship. And a pragmatic streak that expressed itself in understanding design from the user’s point of view. Jobs admired the titans of industrial design, people like Raymond Loewy. In the end, he became one of them, and more, because he also had the will and the wiles to forge his creative genius into the world’s most valuable company.

**Science and Business**

Mark Kurlansky, author of *Cod: A Biography of the Fish That Changed the World* (Walker & Co., 1997) and *Salt: A World History* (Walker & Co., 2002), likes to take his readers down the mineshaft into narrow subjects — in this case, the life of an unusual man — and use those subjects to unearth hidden realms in the commercial universe. Here, he also fills an important niche by documenting the life of an entrepreneur who changed the world.

Most people think the Birds Eye brand emblazoned on packages of frozen vegetables has something to do with an actual bird. But Kurlansky tells us otherwise. In *Birdseye: The Adventures of a Curious Man*, he relates the story of Clarence Birdseye, the man who changed the way the world eats by figuring out how to flash-freeze food on an industrial level. Thanks to Birdseye, by the 1930s, people who previously had lived on mushy canned goods in the winter were enjoying fresh-tasting food year-round.

Ever since childhood, Birdseye was an amateur naturalist who kept his eye on turning a profit from his hobby. Born in Brooklyn in 1886 to a prominent and wealthy family, he encountered the wild as an 8-year-old when his family bought a farm on Long Island. Two years later, he trapped a dozen live muskrats and shipped them to a customer he found in England. While attending college at Amherst, he sold frogs to the Bronx Zoo for reptile chow, and collected rats of a nearly extinct species from behind a butcher shop to sell to a geneticist.

Birdseye was forced to drop out of Amherst when his parents fell into financial distress around 1908, during one of the worst banking and economic crises in U.S. history. He took a job with the U.S. Biological Survey counting coyotes in New Mexico and Arizona and hunted the ticks that caused Rocky Mountain spotted fever, but eventually his commercial instincts led him into fur trading. After collecting bobcat and coyote skins in the western U.S., he moved north to search for fox and ermine pelts by dogsled in Labrador.

*Birdseye* entertains readers with stories of its subject’s consumption of delicacies as varied as skunks and horned owls, a particular favorite being fried rabbit livers. Birdseye was omnivorous and obsessed with food, and in the frozen North, a “hunger for the taste of freshness had a lasting effect,” Kurlansky writes.

It was in Labrador that Birdseye discovered the flash-freezing process that would transform food production. Kurlansky keeps the story moving, although the second half of the book, which details how Birdseye invented the freezing equipment and brought his product to market, is necessarily dry compared to the...
account of the early years in Labrador. A highlight is Birdseye’s aptitude as a promoter, which was essential to winning over resisters, whether culinary conservatives or people suspicious that the new technology was tampering with God’s intentions. By the mid-1940s, U.S. households were convinced: In 1945 and 1946, they bought 800 million pounds of frozen food.

Birdseye’s success came from a marriage of two qualities. He needed his business skills to make his scientific ambitions a reality, just as Jobs needed his aesthetic sense to ignite his technological visions and Eisenhower needed his political genius to lever his executive ability. Birdseye died at age 69 in 1956, a year after Jobs was born. The business he built had become so ubiquitous that the man himself was forgotten. It took 50 more years for Kurlansky to arrive and recognize the need for a biography.

To be great, a biography must do more than tell us an interesting life story; it must teach us something new and worthwhile about ourselves or the world. This year’s best biographies do just that: They illuminate realms forgotten and unknown, and contain lessons that range from inspirational to cautionary. Above all, the lives of Eisenhower, Jobs, and Birdseye give us a collective portrait of the enormous potential that can be unleashed when two fundamental, and even opposing, skills are combined in a single human being.

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IN 2005, ONLY 44 of the companies on Fortune’s Global 500 list were from emerging markets. In 2010, there were 113 emerging-market companies on the list, an increase of more than 150 percent. What led to this significant increase in just five years?

That’s the question taken up in this year’s best business book on strategy, The New Emerging Market Multinationals: Four Strategies for Disrupting Markets and Building Brands, by Amitava Chattopadhyay and Rajeev Batra with Ayse Gul Ozsomer, professors at


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Considering Competition
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INSEAD, the University of Michigan, and Koç University in Istanbul, respectively. In a strong field, the book stands out for taking on the important topic of global competition, and presenting original findings in a manner that’s engaging and accessible to practitioners.

The authors’ central argument is that the new generation of emerging-market multinational companies represent a trend that will transform the global economy. These EMNCs (the authors’ abbreviation) are no longer content to play a secondary role in their industry. They have, write the authors, “the ambition, vision, and confidence to want to become global giants themselves.” Some of them, such as South Korea’s LG Electronics and China’s Lenovo, have been well known for years. Others, including India’s Wipro, Taiwan’s HTC, and China’s Haier, have only recently raised their global profile. And still others are just starting their ascent to the global stage; these include India’s Apollo Tyres, Turkey’s Arçelik, and Brazil’s Natura Cosmetics. If the current trend continues, the list of high-performing companies from emerging markets will grow, and extend to more and more industries.

For some established multinational corporations (MNCs), The New Emerging Market Multinationals will explain the strategies being followed by new competitors that are already roiling their markets. For others, the book offers a glimpse of the future, in which their competitors will come from all over the world. For EMNCs aspiring to succeed in the global arena, the book explores the immense strategic challenges to come. Not only must they compete against large and established incumbents, but they must overcome disadvantages, some real and others perceived, associated with image, brand, and culture. Any successful strategy must not only neutralize the advantage of incumbents, but find new sources of competitive advantage. Hence the reference to disruption in the book’s subtitle.

The book debunks the idea that today’s EMNCs are succeeding only because of advantaged cost positions or generous resource endowments. The authors identified four strategies in the course of their research, which included the study of 39 EMNCs, not only from the largest emerging economies such as Brazil, China, India, Korea, Mexico, and Turkey, but also from Guatemala, Jordan, Taiwan, Thailand, and more.

Two of the strategies are familiar. Some EMNCs are indeed the stereotypical cost leaders, using their advantaged cost structures, often related to wage differentials, to achieve competitive success in new markets. Others are knowledge leveragers, drawing upon their understanding of home country customers to achieve success elsewhere, perhaps following the diaspora of home country emigrants.

More interesting are the growing numbers of EMNCs pursuing a third strategic path. They are seeking to employ their particular advantages of knowledge and innovation while avoiding direct competition with powerful incumbents. These niche customizers identify specific customer segments, often small and apparently unattractive within larger markets, where they can use their expertise to establish strong beachheads and eventually expand their positions. An example is Mahindra & Mahindra Ltd., which used its expertise in producing small tractors in India to expand into the niche markets of lawn care and golf course maintenance in the United States and Australia. Similarly, Haier chose not to enter the U.S. market with large refrigerators, but instead went after the niche market for small refrigerators, suitable for dormitory rooms or wine cellars, and only later expanded its product line.

The fourth strategy, that of global brand builders, represents the most dramatic approach. Just a few years ago, many EMNCs either were original equipment manufacturers or sold low-value branded products. Today, many of these companies have developed global brands known for their high quality, including not only familiar names like HTC and Wipro, but also, as noted earlier, Natura Cosmetics and Apollo Tyres. This transformation is especially ambitious, but it holds the promise of the highest margins and a position of parity with the best companies in the world.

The authors contend that to succeed on the world stage, EMNCs aspiring to be global brand builders face two challenges: one concerning the need to establish a business of global scale, and the other related to build-
ing a global brand. “Without a sustainable global business model, building a global brand is a waste of time and resources,” they write. “On the other hand, a global business built on an unbranded commodity basis is not likely to be very profitable or sustainable long term.” Both are essential and each one reinforces the other, yet they require very different capabilities, confront different obstacles, and move at different rhythms.

One might argue that all MNCs, no matter their country or era, have faced these twin challenges, but the authors think that the challenge facing EMNCs today is greater. Achieving global scale in the 21st century, when incumbents are already large and well developed, calls for particular care. For some, it means avoiding direct confrontation by expanding first in peripheral markets; for others, it involves large and complex acquisitions, such as Apollo Tyres’ acquisition of Dunlop, Tata Motors’ purchase of Daewoo Trucks and Jaguar, and Lenovo’s takeover of IBM’s personal computer division. Developing a global brand, meanwhile, calls for a step change in how an EMNC presents itself and is perceived by customers around the world.

Not surprisingly, the authors, who are marketing professors, devote much attention to the topic of brand building. But they are wise to note that without a solid organization to back it up, efforts to establish a powerful brand will eventually come to naught. Creating a sustainable business model is achieved through the hard work of attracting and retaining talent, of pursuing innovation and quality, and of building processes that can handle daily tasks including procurement, logistics, and sales. They quote Priti Rajora, Wipro’s head of talent management, who commented that one of Wipro’s greatest challenges was to evolve from being an Indian company to being one in which any employee from anywhere in the world had an equal opportunity to rise within the company.

Such a view is especially important in light of recent history. Looking back just one generation, several Japanese companies, including Matsushita and Toyota, succeeded in creating brands with global appeal and shattered the “low quality” image of Japanese products. But they struggled to solve the problem of attracting and retaining local talent, and to become global in outlook. A new crop of EMNCs would do well to acknowledge how one source of strength — a strong and distinctive culture — can become a limitation on the broader global stage.

The New Emerging Market Multinationals is an important addition to the strategy bookshelf because it helps us understand the logic behind the rise of companies from emerging markets, including many new powerhouse firms in electronics, vehicles, services, healthcare, and other industries. The book serves a broader purpose as well, and reminds us of eternal strategic questions, such as how to identify, develop, and sustain a competitive advantage in crowded and unforgiving fields.

Confucius Says

A complementary perspective is provided by Pragmatic Strategy: Eastern Wisdom, Global Success, by Ikujiro Nonaka, professor emeritus of Hitotsubashi University’s Graduate School of International Corporate Strategy, and Zhichang Zhu, a lecturer in management at the Hull University Business School in the United Kingdom. Like the authors of The New Emerging Market Multinationals, Nonaka and Zhu cite evidence of the tectonic shift in global competition caused by the growing number of emerging market multinationals, in particular mentioning those from East Asian nations. But rather than looking to business activities — such as brand building, market segmentation, and leveraging of capabilities — to explain this trend, Nonaka and Zhu examine the broader societal elements of culture and philosophy.

Is the rise of EMNCs, and the development of the economies from which they come, testimony to some wisdom shared among Eastern cultures? Conversely, are the recent problems in the West, including debt crises, financial meltdowns, and economic stagnation, linked to flaws in the philosophies that underpin their societies? It is an intriguing thesis and well worth exploring.
in part to better appreciate the fact that strategy is a reflection of, and embedded in, a larger context.

The authors illuminate the relationship between strategic action and its social context through a sweeping examination of ideas in Eastern and Western philosophy and literature. As the book’s title suggests, their central focus is pragmatism, by which they mean “the purposeful accomplishment of idealistic, informed, disciplined experimentation” that blends a sense of purpose and idealism with flexibility. “Pragmatism is not anything goes or opportunism without purpose,” they write. Rather, it requires learning and sound judgment.

Pragmatic strategies, say Nonaka and Zhu, succeed due to “sheer down-to-earth vigilance and flexibility.” The authors contend that pragmatism is rooted in Confucian thinking, and they find more recent evidence of it in modern Chinese reforms, citing catchphrases, such as “crossing the river by touching stones,” and Deng Xiaoping’s dictum that the color of a cat is of no matter so long as it catches mice.

At the heart of the book, the authors discuss three tenets of “enduring Confucian wisdom”: Wuli (the material–technical), Shili (the cognitive–mental), and Renli (the social–relational). Wuli, which focuses on technical efficiency, involves getting the fundamental elements of the organization working well together. Shili, which is concerned with creativity, provides a vision of a desired future. And Renli, which speaks to the value of social legitimacy, concerns achieving common goodness.

Rather than following a linear logic of setting goals and taking action, or ends driving means, these three concepts are mutually reinforcing, and each can be seen as a point of departure. When approached properly, pragmatic strategy creates a balance among the three, say the authors, that generates value “efficiently, creatively, and legitimately by getting fundamentals right, envisioning a valued future and realising common goodness.” Harmony and balance are the keys to success here; efforts to emphasize one tenet over the others will fail. Thus, strategies based on narrow financial goals or notions of efficiency that ignore social and human consideration are not only incomplete, but ultimately self-defeating.

The authors find evidence of pragmatism in Asian companies, including Honda, Canon, Lenovo, and Haier. They also discuss Nobel Peace Prize joint winners Muhammad Yunus and Grameen Bank. The revolutionary microfinance bank Yunus founded in Bangladesh is a notable example of pragmatism because of its willingness to adapt and experiment, according to the authors. But they recognize that pragmatism is not the exclusive domain of the East. It is present in the thinking of Aristotle, for example, and they note that it also resembles what Jerry Porras and Jim Collins called “core values” in their influential book *Built to Last: Successful Habits of Visionary Companies* (HarperBusiness, 1994). Indeed, among the first exemplars of successful pragmatism cited in *Pragmatic Strategy* are Bill Gates of the Microsoft Corporation and Michael Dell of Dell Inc., smart entrepreneurs whose important influences probably did not include Confucius, but whom the authors nonetheless highlight for their willingness to experiment and adapt.

In the concluding chapter of this scholarly and probing book, the authors suggest that *Shared Wisdom, Global Success* might have been a better subtitle. Principles of balance and a goal of achieving common goodness are indeed crucial in today’s world, and reminding ourselves of the shared wisdom that underpins managerial action is of high importance.

Yet for all its strengths, I still have a few quarrels with this book. The recent growth of emerging economies might seem to be the result of pragmatic policies, but it’s worth recalling that Deng’s comment about the color of a cat was meant as a corrective to years of doctrinal Communist ideology, which was itself a reflection of Chinese thinking. Indeed, Confucianism is often connected with ideas such as obedience, hierarchy, duty, and filial piety, hardly what we associate with pragmatism. Current successes notwithstanding, it is questionable whether China’s emphasis on central initiatives, like its succession of five-year plans, is better understood as a reflection of pragmatism or as evidence of a traditional Chinese emphasis on hierarchical direction. Further, almost any example of success can be described...
as the result of pragmatism. Terms like core vision and balance and adaptability are easy to infer ex post when companies are successful, but are conspicuously absent when companies fail.

These concerns notwithstanding, Pragmatic Strategy remains a fascinating book that spurs us to think about strategy in its broader philosophical context, and advances important hypotheses about the values and ideas behind the growing success of companies with roots in Confucian thinking.

Option Games
An equally scholarly book, but one that addresses a very different aspect of strategy, is Competitive Strategy: Options and Games, by Benoit Chevalier-Roignant, a researcher at University of Texas at Dallas, and Lenos Trigeorgis of the University of Cyprus, one of the leaders in the field of real options. For readers interested in the theoretical underpinnings of competition and strategic choice, it’s an important contribution to the field as well as an engaging book.

The authors explore two theoretical traditions — game theory, which comes from economics, and real options, which traces its roots to finance — and show how their insights can inform many kinds of strategic decisions. Game theory, of course, has long contributed to our understanding of moves and countermeasures in competitive situations. More illuminating for many readers will be the treatment of real options, which is a more recent theoretical development, but can help managers think in terms of the sequence of decisions they make over time.

Many kinds of options, such as puts and calls in the stock market, can be traded in financial markets, but the distinguishing feature of real options is that they cannot be traded. Instead, they are opportunities that accrue only to the owner of an asset, and include decisions such as whether to expand an existing plant or close it and build a new one. Whereas traditional analysis of decisions like these has employed calculations made at a fixed point in time (such as net present value and discounted cash flow), the contribution of real options is to introduce a temporal dimension and show how strategists can respond flexibly as circumstances change.

Most compelling, as well as original, is an integrative approach to strategy that combines the two approaches, which Chevalier-Roignant and Trigeorgis call “option games.” Real options help illuminate the decision to invest or expand, and the addition of game theory adds the competitive dimension, as each player’s moves take into account the actions of rivals.

Competitive Strategy is replete with mathematical formulas and discussions of theory that can be daunting, but the authors do several things that make the book a worthy read for all strategists. First, they offer many examples from the business press to ground the book in real-world decisions. They illustrate the problem of how best to expand capacity, for instance, by citing Virgin Atlantic’s choice in 2004 to double its fleet with the purchase of 13 Airbus 340s, large four-engine aircrafts, in an effort to match rival British Airways in scope, and Air Canada’s choice in 2005 to purchase the Boeing 787 Dreamliner for its superior fuel efficiency on long-haul flights. The decisions the companies made were very different: Virgin preferred a large, lump-sum capacity expansion; Air Canada followed an incremental and flexible approach. But both can be understood by the combined power of game theory, which considers competitive forces, and the insights of real options, which examine sequences of decisions over time.

Second, the authors provide brief interviews with leading thinkers in game theory and real options, including Princeton economist Avinash Dixit and Nobel laureates Reinhard Selten and Robert Aumann. These interludes provide additional perspective and help illuminate key concepts, as well as adding personal and idiosyncratic accounts of their careers. The result is that the reader gains a sense of how the field has developed and an appreciation of how two separate strands of thinking, one from economics and one from corporate finance, can inform strategic decisions.

Competitive Strategy, like Pragmatic Strategy, is rich with ideas that will stretch and challenge the reader. The New Emerging Market Multinationals is less intellectually demanding but perhaps more immediately practical. What the three books share, however, is a willingness to bring fresh thinking to some of the most important questions of global competition and business strategy.+

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THERE IS ALWAYS A LOT OF NOISE around marketing. And marketers listen to it religiously in their search for the new, new thing and the edge it can confer, especially in highly competitive sectors such as consumer packaged goods. But sometimes the noise can drown out core messages about the essence and essentials of a successful product, service, or brand, and obscure our view of its future direction. This year’s best business books on marketing — all from veteran practitioners — rise above the twittering crowd by delivering the kinds of insights that make for compelling listening.

An Ideal Brand
Jim Stengel, whose name is as widely recognized among contemporary marketers as the names of the Procter & Gamble brands he helped build — Pampers and Jif, among others — is a retired executive who is notcontent to rest on his laurels. His first book, Grow: How Ideals Power Growth and Profit at the World’s Greatest Companies, which took root from ideas seeded during his career, is an ambitious, groundbreaking effort to define the future of brand management, supported by a study of tens of thousands of brands put forth by companies around the world.

In Grow, Stengel examines the extraordinary power and performance that can be harnessed when a brand’s purpose is defined by a distinctive, fitting “ideal.” A brand ideal is focused on improving the lives of customers, and is managed by a company that passionately identifies with the beliefs and values underlying it. Stengel claims that defining and activating a distinctive brand ideal is the most powerful lever a business leader can use to achieve competitive advantage.

Although business scholars may challenge his claim in degree, they are unlikely to challenge it in concept. After all, Peter Drucker pegged marketing as one of only two results-producing functions in a business (the other was innovation). And the importance of aligning organizational design, culture, and capabilities to the company’s vision and strategy is well known, as is the potential of a company pursuing an inspirational ideal to unleash exceptional power and commitment in its employees. Until Grow, however, little had been done to put a value on a brand ideal, and limited practical guidance had been offered on how to identify one and make it central to the company as a driver of focus, growth,
and competitive advantage. Stengel addresses these questions directly.

The assumption that brands can make a sizable contribution to shareholder value is foundational to Stengel’s thesis. In fact, brand and business success are synonymous to him because “a brand is what a business is all about in the hearts and minds of the people most important to its future.” To support this thesis, the author cites Millward Brown Optimor’s body of work, which calculated that brand value now accounts for more than 30 percent of the aggregate market capitalization of companies in the S&P 500.

Further, Stengel (in partnership with Millward Brown) designed a new research study of brands, the “Stengel Study of Business Growth,” which analyzed 10 years of data from more than 50,000 brands. It found that the 50 companies whose brands were most strongly associated with improving people’s lives — the “Stengel 50” — generated a return on investment that outpaced the S&P 500 by nearly 400 percent.

Stengel attributes this huge performance differential to ideals — “nothing unites and motivates people’s actions as strongly as ideals,” he writes. He says a brand ideal defines what a brand is and is not, and illuminates its strengths and weaknesses, as well as current and potential points of parity and differentiation. (One of the best lines in the book is a quote from Discovery Channel general manager Clark Bunting, “Great brands say no.”) A brand ideal creates enduring connections, uniting and inspiring everyone a business touches. It enables a leader to articulate and focus on what is most important in a company. It attracts people who are most suited, energized, and committed to delivering what matters most to customers and transforms an enterprise into a “customer-understanding machine.” And it stimulates innovation, in a never-ending quest to better serve the ideal.

How do you develop a brand ideal? Stengel says that first you must discover how your brand is linked to “one of five fields of fundamental human values” (joy, connection to others and the world, the desire to explore new horizons, pride, and social responsibility), and then activate those links in a distinctive, authentic, and purposeful manner. This process of discovery results in an ideal statement, which the author articulates for each of the Stengel 50 brands. Some examples: “Amazon.com exists to enable freedom of choice, exploration, and discovery.” “Dove exists to celebrate every woman’s unique beauty.” “Google exists to immediately satisfy every curiosity.” “Louis Vuitton exists to luxuriously accentuate the journey of life.”

The final question — how do you make the brand ideal the center of the company? — is addressed throughout the book. Stengel breaks his answer into four broadly stated “must-do” tasks: build a culture around the ideal, communicate the ideal to engage employees and customers, deliver a “near-ideal” customer experience, and evaluate your progress and people against the ideal. These four tasks are highlighted with in-depth case studies of various brands, including Discovery Communications, Pampers, and Zappos, as well as with a plethora of shorter examples.

Grow is the year’s best business book on marketing because it leaves us with a better understanding of a brand as the embodiment of a company and its people. It inspires by helping us imagine the great things that could happen if we united our efforts in service of a distinctive higher-order brand ideal aimed at bettering the lives of our customers.

Brand Real

If you think of a brand ideal as a promise, Brand Real: How Smart Companies Live Their Brand Promise and Inspire Fierce Customer Loyalty is a terrific companion volume to Grow. It is a pragmatic and comprehensive guide on how to deliver on a brand promise, which is, writes author Laurence Vincent, head of the Brand Studio at United Talent Agency, “a covenant with consumers” in the form of a commitment to deliver value. Communicating and fulfilling this commitment has always been difficult; today it is more of a challenge than ever — in part, Vincent says, because the millennial generation is populated with “highly skeptical, media savvy, and very vocal” consumers who place a particularly high premium on a brand’s authenticity and credibility.

Brand Real tells us in no uncertain terms how to
make a brand promise stand up at every consumer touch point. To achieve this, the book covers the wide territory of brand marketing; focuses in on the key issues, such as brand architecture and communications strategy; and provides practical advice for addressing those issues.

“Real brands” are those that fulfill, and often exceed, customer expectations. These brands, according to Vincent, make promises they intend to keep and make tough strategic decisions about what to offer and not offer customers, and they grow without straying from their sense of purpose. For example, he writes, “Southwest Airlines has prospered by not doing some things that other airlines do: no assigned seats, no first-class cabin, no meal service. These omissions...are fundamental service decisions that drive the business model and they contain memorable attributes that make the brand salient because they support the brand’s promise to deliver great value through low fares and friendly service.”

Vincent thinks that companies should measure a brand’s success by the expectations it creates and the results that it delivers to users. This requires a reality check that mandates answering three simple, but often ignored, questions about a brand: What is it, why does it matter, and how does it create value?

*Brand Real* is filled with useful lessons for marketers. For example, Vincent clarifies the difference between a brand’s promise and its positioning. A brand’s positioning is the perceptual territory it claims relative to its competitors. A brand promise incorporates its positioning, but also articulates the brand’s reason for existence and defines the benefits of the brand experience in terms of three dimensions: how people think, what they do, and how they feel.

Vincent makes a strong argument for brand simplicity, which is based on his belief that brands exist because consumers hate uncertainty and therefore rely on cues as to what they should expect from products and organizations when making purchase decisions. Thus, brand marketers should not place too much emphasis on symbols, such as a name or logo. Instead, they should seek to clarify the customer’s expectations of the brand experience, and focus their own attention on delivering against those expectations, again and again.

The object is to win what Vincent calls the “memory game,” by creating links in the consumer’s mind between what the brand is and why it matters. He argues that these links among cues, expectations, and experience are fundamentally important, because we all favor brands (such as Apple) that consistently meet or exceed our expectations, and we punish the ones that don’t.

*Brand Real* mirrors *Grow* in its strong advocacy of staff engagement as an essential element in brand success. “From the executive suite to the front lines to the investment base,” declares Vincent, “the best way to sustain a real brand is to align the people behind it with the brand promise.” That is, branding begins inside a company, by ensuring that the values and the behaviors of the people working there are a direct reflection of the brand. If they aren’t, Vincent says, it’s because of one or more of five factors: ignorance, doubt, incompetence, poverty (a lack of resources), and a lack of incentive. And if the employees do not reflect the brand, the brand experience will be flawed and the brand promise will be placed at risk.

At a time when many companies are thinking of branding as an exercise in creating a compelling logo, a sticky website, an entertaining advertisement, or an aesthetically pleasing package, Vincent reminds us that branding is first and foremost a strategic act. It requires “purposeful conduct” in the quest to influence how people behave, both customers and employees. And like any other business strategy, branding should serve as a guide for “mission-critical decisions in capital investment, human resources, research, product development, and operations management.” That’s why *Brand Real* is as relevant to the CEO as it is to the CMO.

**A Buyer’s Market**

If Doc Searls is right, the discipline of branding — and indeed, marketing itself — could be on the brink of a fundamental shift. Soon, claims the former advertising executive, whose insights into the effects of digitization on markets became the platform for his current career
as a highly regarded technology writer, consumers will be managing business-to-consumer (B2C) companies in much the same way as those companies are managing their vendors.

This change will create a new kind of market — the “Intention Economy,” which is vastly different from the current “Attention Economy,” in which marketers vie to be heard. Searls’s *The Intention Economy: When Customers Take Charge* envisions a market in which customers are kings: Their orders are followed, their every need is responded to, and they grant sellers an audience only when they want to. In this economy, digitally empowered shoppers will build personal firewalls that block out unwanted marketing solicitations, and instead they will notify their preferred providers about what they want to buy, when they want to buy it, and how much they want to pay, by issuing the personal equivalent of an RFP.

Although digitization has empowered consumers with information and competitively priced goods and services, until now it has likely had a greater influence on the supply side of markets, spawning innovation in manufacturing, supply chain management, marketing, sales, and other business functions. For marketing’s “hunters,” digitization has proven to be a high-powered scope, enabling them to track every move of their consumer prey. It’s no wonder consumers feel more hounded than ever — constantly interrupted by the cacophony of barking from marketers vying for their attention, and disquieted by the not-so-far-fetched suspicion that silent trackers are always sniffing at their heels.

Searls argues that the time is coming when customers will be “emancipated from the systems built to control them.” The instrument of their emancipation will be vendor relationship management (VRM), the consumer equivalent of customer relationship management (CRM). In other words, individuals will adopt the principles, practices, and guidelines that today’s companies follow when interacting with them.

What VRM (yawn) lacks in appeal as a brand name, it makes up for in ambition. Searls envisions it as a digital tool kit that will create value for consumers by allowing them to manage relationships and service requirements with companies on their own terms; by enabling them to collect their own data and control access to it; by giving them the means to express demand in the open market; and by facilitating negotiated outcomes with sellers that, in the best-case scenario, will support value-creating collaborations.

Searls’s dramatic prognostications are supported by ProjectVRM, which he runs and which was launched in September 2006 from the Berkman Center for Internet & Society at Harvard University. The project’s purpose, he writes, is to “encourage development in an area that has been largely neglected: empowering individuals — especially customers — natively, outside any corporate or organizational framework.” Dozens of companies, mostly startups, have already subscribed to the VRM vision, and they are in the early stages of developing the tools and capabilities that consumers will need to take control of markets. Personal.com, for instance, provides individual users (called “owners”) with a private, fully owned, and fully controlled data vault.

Searls’s vision raises provocative questions for companies and for marketers. Imagine, for example, an elderly woman who wants a computer that is simple enough for her to operate, or a man who wants a wool sweater in a particular style, or a driver seeking a part for an automobile. Instead of searching for suppliers, what if they put their specs online and companies vied to meet their needs? How would your company respond if the clearinghouse for supply meeting demand devolved to the level of the individual customer and was orchestrated by that customer? Could your company survive in a marketplace in which gaining the attention of targeted consumers has given way to paying attention to consumers targeting you?

It’s hard to answer these questions. If the Intention Economy does come to fruition, it will likely render obsolete many of today’s marketing practices, which were designed to capture the attention of consumers. (Searls reminds us that the word *branding* was borrowed from the cattle industry, and its intention was to burn a product into the customer’s mind — not an image that will appeal to tomorrow’s customer–kings.)

That day is not here yet, however, so read *Grow* and *Brand Real* to learn how to build a better connection with customers in today’s markets, and then read *The Intention Economy* to ponder how you might prepare for the future.

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Context Is King

by Krisztina "Z" Holly

TWENTY-FIVE YEARS AGO, while working on the advanced manufacturing team for the space shuttle’s main engine, I watched a co-worker struggling to introduce a new technology. He was charged with developing a laser welding technique to replace the finicky electron beam technology that was destroying million-dollar parts. But his potentially superior approach was abandoned because the people on the shop floor resisted the change. It was the first time I saw an innovation effort fail because of context, and I never forgot it.

Since then, and especially while leading efforts to commercialize research at two universities, I’ve repeatedly seen how the complex systems of partners, resources, infrastructure, and cultural norms that surround most innovation efforts influence their outcomes. In today’s complex and rapidly changing world, innovators ignore this context at their peril. This year’s best business books on innovation help mitigate the risk by examining context from three different, but complementary, perspectives.

Innovation Ecosystems

Sony ignored context when it delivered the first truly viable electronic reading device without an easily accessible, fully stocked e-bookstore — and suffered the consequences. As Ron Adner, a professor of strategy at the Tuck School of Business at Dartmouth College, describes it, Amazon’s late-arriving, inferior Kindle quickly surpassed Sony’s e-reader and achieved market dominance because of Amazon’s partnerships with publishers and superior content platform.

Adner provides an approach and a tool kit for avoiding Sony’s fate in his book The Wide Lens: A New Strategy for Innovation. Written in a style and format similar to those of books like Geoffrey Moore’s Crossing the Chasm: Marketing and Selling Technology Products to Mainstream Customers (HarperBusiness, 1991) and Jim Collins’s Good to Great: Why Some Companies Make the Leap…and Others Don’t (HarperBusiness, 2001), its well-structured chapters are studded with numerous case studies designed to help readers think about their company from a fresh perspective — in this case, the ecosystem in which they innovate.

In Part I, the author describes two common contextual blind spots: the “co-innovation risk” of not considering the suppliers and other partners necessary to bringing a solution to market, and the “adoption chain risk” of not considering which players are needed to ensure that end-users can fully realize the value offered by the solution.

Parts II and III, the remainder of the book, are devoted to avoiding these blind spots, starting with what
Adner calls a “value blueprint” of the innovation ecosystem. This blueprint identifies the end customer, the project deliverables, the suppliers needed to build the solution, the intermediaries and “complementors” needed to deliver it, and the vulnerabilities in the system.

Despite the allure of being the leader of an innovation ecosystem, Adner cautions companies about jumping onto this high-risk path too quickly. It typically involves a huge investment and delayed payoffs — not to mention the fact that many companies do not have the influence or platform needed to lead. Assuring us that the first-mover advantage is a myth, he suggests that the role of fast follower may make much more sense for many; he uses the often-cited Apple iPod as an example of a blockbuster product that was deliberately released years after the first competitor was on the market. (See “The Value of Being Second,” by Oded Shenkar, s+b, Author’s Choice, Sept. 28, 2012.)

In addition to familiar success stories like the Kindle and iPod, Adner includes lesser-known examples of creative solutions devised to overcome contextual obstacles. For example, high-quality digital cinema seemed like a no-brainer in the movie industry, especially for the studios that were spending US$3,000 per theater to print and ship film. But theater owners could not afford the new equipment required to screen digital films. This delayed digitization by 10 years, during which time the studios continued to pay unnecessary costs and moviegoers did not get the benefit of digital viewing. Eventually, the industry pulled together a “virtual print fee” program to address the logjam. This system introduced a new player to the ecosystem, the “digital theater integrator,” which purchased the new screening equipment and installed it in theaters on a lease-to-own basis. The studios shared the cost by paying the digital integrators a $1,000 virtual print fee for each film they sent to the theaters. This win-win-win solution cleared the way for digital cinema and created a platform for other innovations, such as 3-D movies.

*The Wide Lens* falls short in two areas. The first is the missing perspective of smaller companies within complex innovation ecosystems that will rarely get the opportunity to play the leadership role; the lessons that these companies will glean must come mainly through inference. The second is the lack of detailed guidance for mapping and aligning the innovation ecosystem within a company. Adner includes a short section on this topic at the end of Part I, but my experience suggests that the internal pitfalls of context warrant much more attention.

These minor shortcomings aside, it is clear that innovation ecosystems have broad implications across society. In healthcare, in particular, the frequently conflicting interests of regulatory agencies, insurers, doctors, and hospitals prevent the adoption of potentially lifesaving innovations. Adner offers up electronic health records (EHRs) as a case in point. A key component in streamlining and improving the quality and cost of healthcare, EHRs should have become commonplace years ago in the United States. But they didn’t — mainly because of the investment necessary to get them off the ground. They are only now starting to gain momentum because they are promoted by new incentives from the federal government.

Energy presents another area in which the benefits to ecosystem incumbents are not yet compelling enough to drive large-scale change. Although most books analyze innovations with 20/20 hindsight, Adner’s in-depth analysis of the still-nascent electric car industry and his willingness to offer ideas for kick-starting it are praiseworthy. Policymakers should take note.

### Innovation Transplanted

In *Reverse Innovation: Create Far from Home, Win Everywhere*, Vijay Govindarajan and Chris Trimble make a compelling argument for companies to not just widen their lens, but shift it to a completely different context — that of developing economies. Companies are well aware of the opportunities in emerging markets, but they’ve also learned that what works in Chicago and Boston doesn’t always work in Shanghai and Bangalore.

This has led some executives to the erroneous conclusion that they should wait to enter emerging markets until these markets are more mature and ready for their
companies’ offerings. But Govindarajan and Trimble, who, like Adner, teach at the Tuck School of Business, warn that this mindset will cause many companies to miss valuable opportunities for growth. They may also run the even bigger risk of being leapfrogged in their home markets by innovations originating from the very markets they are ignoring.

The keystone of the authors’ thesis is that developing nations will be the genesis of innovation in the decades to come, and not because of the lower cost of labor. “The primary competitor is not the horse you’ve been racing against for years,” they caution readers, “it’s the horse you may never have heard of before.” They cite a growing list of companies based in emerging markets — Embraer in Brazil, Cemex in Mexico, and Mahindra & Mahindra in India, to name a few — that are rapidly making inroads in the developed world.

Fortunately, Govindarajan and Trimble don’t dwell too long on doomsday scenarios. Instead, they outline a pragmatic process that can enable companies in developed nations to capture the benefits of “reverse innovation” — that is, innovation that is developed first in an emerging economy, and then flows “uphill” to more mature markets.

The authors begin by describing five “needs gaps” that harbor opportunities for innovation within emerging markets: performance, infrastructure, sustainability, regulatory issues, and cultural preferences. For example, customers in emerging markets are often willing to sacrifice performance for affordability. A company can thus capture a compelling opportunity if it can offer a product with 50 percent lower performance at 15 percent of the current price of its products designed for developed markets. However, this cannot be accomplished by simply slimming down the existing product; it requires a clean-slate innovation effort.

And so reverse innovation begins: As companies work to bridge the five gaps in emerging markets, they create products that can ultimately disrupt developed markets, à la Clayton Christensen’s “innovator’s dilemma.” Witness how the One Laptop per Child initiative inspired the development of netbooks, and how GE Healthcare’s $500 MAC portable electrocardiogram developed in India for the Indian market enabled the company to create an affordable unit that U.S. physicians wanted for their offices.

Of course, working in a new culture can be daunting. Several years ago, the USC Stevens Center for Innovation sent student teams supported by the Desh-pande Foundation to southern India with the goal of creating scalable solutions to social problems. But the moment the students landed, everything defied their expectations. The local residents were dealing with countless problems of agriculture, sanitation, education, and healthcare that were no longer considered relevant in the U.S., and they were doing so within a different cultural context.

Happily, however, the students were able to take advantage of a technological context that is far different from what it was decades ago. In emerging markets, aspiring innovators can now apply 21st-century technology to 20th-century problems, without being hampered by the legacy infrastructure of developed markets. This is how one student team was able to develop a text messaging system that immediately and inexpensively distributed public health information among healthcare workers across the region — and it’s also why I am likely to get better cell phone coverage in Sichuan or Sri Lanka than on Sand Hill Road in the middle of Silicon Valley. Thus, new market and technology contexts provide fertile soil for innovative leaps.

Govindarajan and Trimble acknowledge the difficulties of innovating in emerging economies and offer practical solutions for managing those difficulties, derived from their study of companies that have successfully achieved reverse innovation. For example, they suggest creating dedicated local growth teams (LGTs). An LGT, they write, is a “small, cross-functional entrepreneurial unit physically located in the emerging market.” Because an LGT’s job is experimentation, its results should be measured by the learning it produces rather than financial results. This can be a challenge for corporations accustomed to measuring the bottom line.

Given their legacy frameworks, multinational corporations may find it much more difficult to embrace and pursue reverse innovation than will small companies and startups. But the authors argue that whenever a large corporation’s experiment succeeds, its powerful networks will put the corporation in the best position to capitalize on it in developed markets.

Reverse Innovation is concisely written and clearly structured, but its concepts aren’t entirely new. Govindarajan and Trimble briefly mention some of the antecedents in an appendix, but not John Hagel III and John Seely Brown, who coined the term innovation blowback in 2005 to describe the likelihood of new innovations originating from the developing world. Despite this oversight, Reverse Innovation provides a
compelling argument and a practical road map for companies that want to tap the context of developing countries as a valuable new resource for innovation.

In the Context of the Cloud
In contrast to The Wide Lens and Reverse Innovation, Thomas M. Koulopoulos’s latest book, Cloud Surfing: A New Way to Think about Risk, Innovation, Scale, and Success, is not really about innovation per se. Rather, it’s about a profound global shift affecting the context of innovation — the emergence of the digital cloud network. This is a fundamental change that we all must understand in order to innovate — and to survive technological change — in the coming years.

Koulopoulos, the CEO and founder of technology research and consulting firm Delphi Group, defines the cloud as “an evolving, intelligent, infinitely scalable, always available, real-time collection of technology, content, and human resources that can be accessed as and when needed.” It is best known for providing the computing infrastructure that enables fast-growing companies to scale almost instantly and without heavy up-front capital expenditures.

But, as the author explains it, cloud computing is only a small part of the story, and the full scope and impact of the cloud are still emerging. Koulopoulos explains how this network is expanding so quickly that soon it will provide any resource — not just computing, but content, partners, components, labor, data from 5 billion mobile devices, and so on — as responsively and efficiently as the power grid provides electricity at the flip of a switch.

Metcalfe’s Law tells us that the power of a network scales exponentially with the number of nodes. Today, the number of nodes in the cloud is approaching the number of connections in the human brain. What does this giant global brain mean for our future? Koulopoulos believes that the cloud will restructure information and society and will connect people and resources in entirely new ways. Indeed, it has already been instrumental in bringing us the Arab Spring, the lean startup, “big data,” and software as a service. And it has even bigger implications — in terms of governance, privacy and trust, cost structures and value chains, consumerism, intellectual property ownership, and the nature of work — that have yet to be fully understood.

One of the most interesting chapters in the book explores the effect of the cloud on commerce. The cloud enables value chains that are ever more intertwined and global. And Koulopoulos echoes Adner’s ecosystem thesis when he writes, “The survival of one company or industry is intimately tied to the survival of others… Success is based on a level of collaboration and community we are just beginning to appreciate.” Unlike in the last century, for example, when corporations attained competitive advantage from vertically integrated and often proprietary supply chains, competitiveness now depends on speed and agility, and today’s companies can use the cloud to tap into a nearly limitless and flexible supply base. Trading platforms such as the E2open Business Network are emerging to not only supply components on demand, but also anticipate and adjust for global demand on the basis of intelligence derived from the cloud. The cloud is leading a shift from mass production to what Koulopoulos calls “mass innovation,” and it can empower all businesses, large and small, to play an increasingly important role in global commerce.

Cloud Surfing makes it clear that the cloud will transform many industries and create entirely new ones, but its chapter on innovation could have been more fully developed. It focuses primarily on new “cloudsourcing” approaches for finding solutions to problems, but does not explore the broader impacts of the cloud on key frontiers of discovery. For example, academic research has started to expand its focus from biology to big data in treating disease, and from solar energy to the smart grid in addressing our energy problems. The effects of the cloud on the forefront of research and development will shape our future.

Koulopoulos also could have more explicitly discussed how the cloud is enabling business model innovation. For example, he might have highlighted the emergence of a sharing economy that is giving rise to a whole new class of peer-to-peer markets for renting personal vehicles, borrowing personal goods, and accessing
services on demand. The cloud is catalyzing numerous paradigm shifts such as this, opening up entrepreneurial opportunities that would be appropriate for a chapter on innovation.

Yet, on second thought, perhaps there is no reason at all to have a distinct chapter on innovation in Cloud Surfing: The entire book is about a new context for innovation that stimulates the imagination of the reader. This is why Cloud Surfing is my choice for the year’s best business book on innovation. Instead of a “how-to” book, it is a “what-if” book that sets out a bold vision for the future and provides the tinder needed to spark innovative ideas. It amplifies the implications of all of the year’s other business books and provides a better understanding of the seismic shifts being driven by today’s rapidly advancing technology.

Joe Flower, Healthcare beyond Reform: Doing It Right for Half the Cost (Productivity Press, 2012)
Otis Webb Brawley, M.D., with Paul Goldberg, How We Do Harm: A Doctor Breaks Ranks about Being Sick in America (St. Martin’s Press, 2012)

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ALTHOUGH IT REFLECTS AN INDUSTRY on the brink of deep and shuddering structural change, the healthcare bookshelf offered surprisingly few big, new ideas this year. Perhaps this is due to the damming up of ideas and initiatives behind the ongoing battle over healthcare reform in the United States. The Supreme Court’s decision to uphold the Affordable Care Act (ACA) in June 2012 should have released lots of pent-up energy, but, in a presidential election year rife with calls for repeal and a
political atmosphere more akin to sectarian violence than civil discourse, uncertainty still hangs in the air.

Somewhat ironically, this year’s healthcare books are focused mainly on the provider sector of the industry, even though the more revolutionary aspects of the ACA — mandatory coverage, state-run insurance exchanges, and the banning of some extremely unpopular practices, such as annual and lifelong limits and denials for preexisting conditions — are aimed at the payor sector. This may be a function of the size of the audience: A few big insurance companies will drive reform on the payor side, whereas reform in care delivery will involve many providers, including more than 5,000 hospitals and 850,000 licensed doctors in the U.S. — a much larger potential readership.

In one way or another, most of the books dealing with healthcare this year are about the ACA. Naturally, many of them either are loaded with ideological and political rhetoric or are simply jeremiads — long on now-familiar indictments of the healthcare system, but short on useful insight. The fact that the system is fundamentally flawed stopped being news at least 10 years ago. What are we going to do about it?

Happily, there are a few insightful books that address this question, which is of interest to us all. Executives in all industries are dealing with the unsustainable rise in healthcare insurance and benefits costs and, of course, everyone deals with the healthcare system on a personal level. Each of this year’s best business books examines the vital issues in healthcare, offers ideas well within the grasp of educated citizens, and makes a meaningful contribution toward a better future.

The $100 Billion Question

*Healthcare beyond Reform: Doing It Right for Half the Cost,* by Joe Flower, a veteran journalist who has written for *strategy+business* on several occasions, is the most well-organized, comprehensive, and sensible “big picture” book about improving care delivery this year. It belongs on the shelves of leaders and thinkers within the industry, and is still sufficiently jargon-free to appeal to a broader audience. What sets the book apart is its powerful framework for sorting out what’s most important in the quest to provide higher-quality care to more people at lower cost, some commonsense metrics that keep our eyes on the prize, and a blame-free approach to causality that is refreshing. Oh yes, and Flower’s priorities and recommendations are persuasive.

Flower borrows a proven framework from operational strategy and adapts it to focus on three levels of care delivery improvement: avoidance (do we really need to do this?), coordination (do the components function effectively?), and efficiency (are we working smart and fast enough?). He uses this framework to identify the points of greatest leverage in the attack on healthcare’s problems by defining major cost and performance drivers and, at a high level, quantifying the opportunities.

Of even greater usefulness is his characterization of the improvements and savings available from each of these three levers. Flower uses a stubby-crayon methodology here — his “savings scale” is calibrated from “gobs” and “vast sums” to “fascinating amounts” and “interesting amounts.” Unsurprisingly, the biggest opportunities reside at the avoidance level.

Eventually, Flower does estimate the actual financial impact of specific initiatives, while repeatedly using a single metric for significance — the estimated US$100 billion needed to extend healthcare coverage to people in the U.S. who are uninsured today. Any strategy or program that has the potential to make a significant dent in that number through savings and reinvestment jumps to the top of his priorities for action.

Amid this year’s bumper crop of healthcare books, Flower has a thesis that is more causally straightforward and far less high-and-mighty than most. He has two rules for understanding economic behavior: (1) “People do what you pay them to do,” and (2) “People do exactly what you pay them to do.” So, while acknowledging the usual list of unintended and undesirable consequences in the U.S. business model for healthcare, Flower spares us the unproductive indictment and prosecution of the usual suspects (such as greedy doctors, heartless insurance companies, and overpaid executives).

Instead, Flower puts the emphasis in the right
places. The biggest savings, he concludes, will come from addressing “inappropriate therapies; ‘heroic’ end-of-life treatment; pharmaceutical waste; [and] the acute results of untreated, preventable chronic disease.” Making major strides in these areas won’t be easy, but he sees the ACA as having many of the structural and financial features needed to move forward. For instance, everyone needs to have coverage, not just to spread the actuarial risk across entire lifetimes, but to enable access to the right level and type of services. The ACA gives the previously uninsured an alternative to the hospital emergency room, which is a terrible, and terribly expensive, setting for primary care.

The major thrust of the book’s delivery-side prescription can be summarized as an endorsement of intensive, targeted, and proactive primary care under the umbrella of a close-knit provider system whose members’ pay is based on health status and results, not volume and transactions. Flower cites research showing that some of the oldest and most respected health systems, including the Mayo Clinic, Cleveland Clinic, and Kaiser-Permanente, have used this approach with outstanding results and demonstrably lower cost per covered patient.

Can the U.S. healthcare system cut its costs by 50 percent, as suggested in the title? Probably not, but 20 percent looks achievable. The book’s framework and recommended priorities for action are the most attractive options available, and the good news, as Flower points out, is that many leading organizations are moving dramatically in the right direction. For these reasons, I commend Healthcare beyond Reform as the best healthcare business book of the year.

Scientific Limits
Evidence-based medicine and the standardization of treatment protocols are pillars of both the ACA and Flower’s recommended approach. Although there is a lot to be gained by vetting and standardizing fairly noncontroversial screenings, interventions, and treatments, it is a complex and nuanced subject. None of this year’s books on healthcare speak to the subject as eloquently and engagingly as Otis Webb Brawley’s How We Do Harm: A Doctor Breaks Ranks about Being Sick in America.

The title suggests a tell-all memoir, but the top clinician and executive at the American Cancer Society gives us much more. Brawley, who is also an oncologist and professor at Emory University, relates his inspiring personal journey — from poverty in Detroit to his life as a prominent scientist, physician, and leader — using sometimes moving, sometimes disturbing, and often cautionary and self-questioning stories from his career and patients. Each story not only illustrates structural and moral failures in the healthcare system (without preachiness), but also digs into the science underlying some of the thorniest issues in medicine and healthcare.

Brawley is well aware of the need for evidence-based medicine and standardization. But he also points out the sometimes shaky science underlying the current standards for screening and treatment. To screen or not to screen? To treat or not to treat? These questions are not easy to answer; they go to the heart of arguments about rationality versus rationing, value versus cost, and population health versus individual health.

These profound issues are regularly in the news, but they are seldom examined in greater depth than headline teasers. Worse, they are often misrepresented, politicized, and trivialized by terms such as “death panels” (which do not exist) and “government rationing.”

Brawley frames several of them as issues of denominators versus numerators. Consider annual mammograms for breast cancer screening. For women between 40 and 49 years of age, only a few tumors per thousand screenings will be found, and the mortality rate will not be significantly affected by their early discovery (earlier, say, than those found through digital exams). The cost of the screenings, plus the cost (and anguish) of pursuing large numbers of false positives, dwarfs the benefits of affecting mortality in a small number of cases. If you make health policy or pay the bills for lots of plan members, the decision appears obvious: Cut the screenings. If, however, you are a woman who is not just in the denominator (i.e., you have a tumor), the decision is not easy at all. In fact, for too many patients, the only question may be, “Do you feel lucky?”

For gender balance, Brawley presents a similar example involving prostate cancer screening and treatment, which are actually somewhat more complex because of one simple fact: Far more men have prostate cancer when they die (28 percent) than die from prostate cancer (3 percent). Which cases merit intervention? Do screenings that result in treatment interventions actually cause more harm and expense than good? Research aimed at answering these questions is under way, but it is unlikely to remove the uncertainty anytime soon. Meanwhile, Brawley points out, the push for prostate
Far more men have prostate cancer when they die (28 percent) than die from prostate cancer (3 percent). Which cases merit intervention?

interests. And he tells us what good research science is and what it is not (with compelling examples from his early-career work at the National Cancer Institute).

*How We Do Harm* is a profound and moving deep dive into the sociology and ethical challenges of healthcare and medicine. It is also a very accessible tale of caution and offers wisdom about the limitations of evidence-based medicine in a world with insufficient evidence.

**Profiles in Excellence**

*Pursuing the Triple Aim: Seven Innovators Show the Way to Better Care, Better Health, and Lower Costs* delivers just what the title promises. Its authors, Maureen Bisognano, president and CEO of the Institute for Healthcare Improvement, and Charles Kenney, an award-winning author and former journalist at the *Boston Globe*, take some of the big ideas discussed by Flower and Brawley and show how they have been put into action. Each chapter features a different case study, and the seven cases in the book illustrate how new approaches can powerfully change care, outcomes, and costs for the better.

Although the chronological format of the cases is sometimes too linear and overly detailed, *Pursuing the Triple Aim* ultimately succeeds. The issues and opportunities tackled in the book are diverse, and many echo the high-impact hierarchy suggested in Flower’s book. The cases include diabetes management for patients of an HMO, improvement of costs and outcomes for a state Medicaid population, experiments in moving away from fee-based medicine, and the reengineering and reimagining of end-to-end care for high-cost but high-volume procedures such as joint replacements.

For healthcare executives charged with tackling care improvement, the here-and-now, been-there-done-that tone should be motivational. The deck is a bit stacked because almost all of the cases are drawn from highly integrated provider systems (doctors and hospitals operating under one organizational umbrella) with a history of being paid via some kind of set fee per member, as opposed to the traditional fee-for-service model. This will make it somewhat harder for less-integrated provider systems to mimic the scenarios in the book, but it shouldn’t be a major drawback because virtually all healthcare delivery systems have been moving toward greater integration of physicians and hospitals over the last decade.

Perhaps the most compelling case, involving the Virginia Mason Medical Center in Seattle and Intel Corporation, illustrates the potential of major employers working with their biggest healthcare “suppliers” to control costs and improve care. Building on a small-scale effort aimed at reducing costs and absenteeism due to minor lower-back pain among Starbucks employees, Virginia Mason and Intel, both experienced and committed lean organizations, used two simple questions to create the foundation for a new delivery system for back patients. Virginia Mason asked, “What do our customers want?” and Intel asked, “Why don’t we buy healthcare as rationally as we source everything else we need?” Their goals for back pain patients were ambitious: They wanted complete patient satisfaction, same-day access, rapid return to function, and 100 percent use of evidence-based medicine in every case.

The journey taken together by Virginia Mason and Intel to achieve these goals was complex, and it involved more and more players as it evolved, including multiple markets, new providers, and insurers. It has a happy ending, of course, and the process used can be replicated to improve systems and treatments for other high-volume conditions, such as depression, diabetes, and abdominal pain.
The authors share analytical techniques, organizational approaches, metrics, and inspirational vignettes in each of the case studies. But these studies are first and foremost lessons in the need to focus on goals rather than tools. Other how-to books generally shoot too low — imparting skills, but too often aiming at minor targets. Pursuing the Triple Aim shoots higher and hits its mark.

There will be a lot of “gee-whiz” advances in the science and technology of healthcare in the coming decades. But as wonderful as that future promises to be, we will never see its true value if we don’t address the structural, moral, and operational challenges burdening our current healthcare system. Each of this year’s best business books on healthcare is a real contribution toward making that better future more likely.

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ORGANIZATIONAL CULTURE

Small Talk
by Sally Helgesen

THE INTENSE FOCUS on corporate change during the last decade has given us a greater appreciation of the role that culture plays in organizations. Change efforts can succeed only if the culture is engaged; getting the strategy and other formal elements right is never enough. And culture is vested in people — how they work, what they believe, how they behave and communicate, and what they ask of themselves. It’s the bedrock reality of an organization, its true ground. When culture is harnessed, extraordinary transformations can occur.

As part of a strategic initiative aimed at making the huge, partially state-owned, heavily unionized company more innovative and productive, its leaders sent cross-functional teams drawn from the ranks of young employees into remote regions of India to conduct field research and “live where the market was, for about two or three weeks.”

The resulting exchanges yielded critical insights into how HPCL could improve its retail performance in rural areas, for example, by building small, inexpensive fueling stations along secondary roads. This innovation not only improved the company’s performance and gave it access to enormous untapped markets, but also spurred engagement among the young employees. Seeing their ideas put into action on a massive scale gave them a sense of ownership in their company. Employee buy-in, bolstered by ongoing efforts intended to create a coherent organizational vision and culture, has proved invaluable to the company. For example, when a general strike was called throughout the Indian energy sector, HPCL was the only state-owned company that continued to operate, because its managers and staff felt too responsible for its welfare to walk out.

Many of this year’s business books recognize culture’s role as the essential driver of effective change. But frequently their suggestions for engaging the levers of culture are limited to exhortation: Be more open! Behave less hierarchically! Become a change agent! By contrast, the three books reviewed here offer highly specific ways of engaging culture to build more effective, productive, and innovative organizations.

**Déjà Review**

*Productive Workplaces: Dignity, Meaning, and Community in the 21st Century: 25th Anniversary Edition* (originally published in 1987 as *Productive Workplaces: Organizing and Managing for Dignity, Meaning, and Community*) draws on Marvin R. Weisbord’s dual perspectives as a thoughtful and inquiring business manager and an indefatigable student of management practice. The book’s reissue, updated and expanded, offers nothing less than a history of how cultural innovations have pushed organizations to become more productive over the last century and a half.

Inheriting a position in his family’s printing business in the late 1950s, Weisbord quite naturally adopted the heroic, top-down style of leading that was then so prevalent as to be almost unquestioned. In essence, he made decisions and gave orders that he expected the frontline people in his company to carry out, while he also tried to define the processes and methods they should use. But a few sobering experiences soon convinced him that the people he was ordering around knew a lot more about their jobs than he did. What they really needed from the boss was freedom and support so they could make the best use of their skills.

This insight prompted Weisbord to undertake a personal journey to discover how to help people create the conditions under which they could be most effective rather than imposing standards or methods on them. He read widely and made a point of spending time with some of the great pioneers of participative management, collaborative learning, and systems thinking: Kurt Lewin, Douglas McGregor, Eric Trist, Fred Emery, and Warren Bennis. He turned his own company into a learning lab where he put to work the ideas he was discovering, eventually becoming a consultant and writing about what he had learned.

The result was the first edition of *Productive Workplaces*, a highly personal, sometimes idiosyncratic account of Weisbord’s quest to become a better leader, and a wise and timeless contribution to the literature of work that a quarter-century later is the year’s best business book on organizational culture. In the new edition, Weisbord recasts some of his stories from management history, describes his recent work with collaborative teaming, and offers both updated and new cases.

The new chapter on “Ten Management Myths” alone, in which the author summarizes five decades of experience, makes this edition worth reading. One myth is the belief that large-scale interventions and Day One transformations have the capacity to change an organization’s culture. But Weisbord’s experience has convinced him that organizations actually change only one
An ingenious exercise called “Kill the Company” asks participants to think up their competitors’ strategy to drive their own company out of business.
tor could exploit them. According to Bodell, the most useful insights surface when participants consider specific scenarios. They should seek to answer questions such as, “What steps could a competitor take that would cut pricing by half on one of our main products?” “If we were hosting a public forum called ‘How Our Services Really Suck,’ what would be the main discussion topic?” “If someone were writing a tell-all book about our company, what painful secrets would they reveal?”

A second methodology, “Kill the Stupid Rules,” focuses attention on non-essentials that get in everybody’s way. Most stupid rules, Bodell notes, are enshrined policies that, over time, become “how we do things around here” — that is, part of the culture. Often they’re minor but familiar irritations: expense documentation requirements, IT departments’ blocking of access to useful websites, monthly operating reports that eat up significant amounts of time to prepare and review. When asked to identify stupid rules, Bodell finds that most of a company’s employees offer up the same suggestions, indicating that widespread frustration has become routine. She also observes that by agreeing to jettison rules widely perceived as idiotic, leaders can garner an almost unreasonable return in loyalty and respect.

A third method, “Provocative Inquiry,” recasts brainstorming to generate more pointed results. Bodell observes that most brainstorming fails to fulfill its promise because the questions are either too generic or framed in ways that elicit barriers to action rather than action. Ask people, “What do we want to look like in 10 years?” and you’re liable to get generalities in response: “We want to be number one in our sector.” But ask a group to name three microtrends that could transform their business and you’re likely to get a more robust and thoughtful discussion. For example: If passwords become obsolete, what will take their place, and how could our financial-services unit benefit from the shift?

Bodell urges organizations to focus on behaviors and parameters even when framing an organizational vision. Instead of urging people to take risks, for instance, define risk in concrete terms and set limits for it. Instead of offering up idealistic prose about the need for collaboration between units, create a “lazy intellectual property list” that helps people identify ideas from other units that they could help develop. Always, the emphasis is on specificity and framing provocative questions, the essential starting point for conversations that spur actionable change. And the writing in Bodell’s book models the practices she’s developed — it’s direct, clear, and refreshingly to the point.

**Talk, Talk**

Fans of Boris Groysberg’s brilliant and data-rich *Chasing Stars: The Myth of Talent and the Portability of Performance* (Princeton University Press), which I reviewed for *s+b* as 2010’s best business book on human capital, may be surprised by the nuts-and-bolts approach of the Harvard Business School professor’s latest effort. But what *Talk, Inc.: How Trusted Leaders Use Conversation to Power Their Organizations*, which is coauthored by former *Fast Company* editor Michael Slind, lacks in academic heft and quantitative scope, it more than makes up for in practical relevance.

*Talk, Inc.*’s guiding premise is that the strength and consistency of an organization’s culture can be judged by the quality of its communications. The “organizational conversation” not only manifests the culture, it also plays a key role in shaping it. Talk, therefore, is a powerful tool for creating and promulgating more powerful and more aligned cultures.

Groysberg and Slind distinguish organizational conversation from corporate communications, noting that the latter function grew out of the command-and-control model and served in part as a means of controlling talk. They note that people today require a less hierarchical approach, one that acknowledges and supports how information actually circulates through a company. Leaders can’t control this kind of talk, but they can engage in it, and in the process unleash an energy greater than any leader can command.

The authors believe that effective organizational conversation always involves a combination of four elements: intimacy, interactivity, inclusion, and intentionality. They fully describe each element, and provide case
studies and actionable takeaways.

**Intimacy** means that talk takes place face-to-face: informally, between two people or in small groups. Leaders who communicate intimately do so by talking to people at every level of the organization in ways that are personal, authentic, and transparent with regards to intent. They address real concerns in direct language that avoids euphemism and condescension. Because it is rooted in relationships, intimate talk demands that leaders “get real,” meaning that they have to listen and to be willing to examine their own underlying motives and presumptions about the people with whom they are engaging.

**Interactivity** means that talk is two-way: there is a give-and-take. Profoundly social by nature, interactive talk both elicits responses and provides a means for participants to pass on information. The authors note that interactivity is well served by social media platforms, which facilitate and sometimes mandate two-way communication. But they caution that such technologies are tools that, if misused, can just as easily be counterproductive. Chat windows, for example, are highly ineffective at generating interactive communication because participants perceive one another as “people in a box” rather than partners in an authentic conversation.

Groysberg and Slind offer Cisco as a robust example of a company that successfully uses technology to keep the talk flowing and the culture coherent. Cisco’s development and use of TelePresence — which simulates in-person meetings by beaming high-definition, life-sized video feeds between locations — is especially instructive. To create it, the company’s engineers extensively studied the conditions that spur interactivity in videoconferencing sessions. They discovered that scale is critical — an on-screen person needs to appear at 80 percent or more of his or her size to spur active engagement. Exchanges at eye level and unobstructed views of body language are also essential.

**Inclusion** means relying chiefly on employees’ talk to generate ideas and content. “If you let them build it, they will come,” write Groysberg and Slind, who then provide dozens of examples for putting this principle to effective use, focusing in particular on the EMC Corporation. When the data storage giant’s leaders needed supporting content for their submission to an annual Best Companies to Work For survey, they didn’t ask corporate communications to prepare the materials. Instead, they community-sourced it by putting the request out on their intranet. Employees presented and documented their own experiences, posting photos and videos and speaking through blogs, and EMC used their content to support the submission.

Finally, **intentionality** means that talk is purposeful as well as flowing. Groysberg and Slind note that those who speak with intention do so with a sense of where they hope the conversation will lead and what they want to accomplish. In organizations, intentionality is expressed by making sure internal conversations are aligned with operational and competitive goals. In the past, such strategic formulations were designed and disseminated from the top, but Groysberg and Slind argue that to be effective today, agreement must be generated in the talk that circulates throughout the company. This can’t happen unless people in the organization are able to see their enterprise as a whole and understand what colleagues in different units and at different levels are really doing. Conversations that serve intentionality must therefore bring different segments together, giving participants a comprehensive sense of their organization and its place in the larger world.

**Talk, Inc.** makes a powerful case that effective talk is the primary means of motivating and inspiring loyalty among today’s increasingly social and connected workforce. Knowing what’s going on and feeling that one is part of a larger endeavor is the kind of nonmonetary reward that the new generations of employees in particular are demanding. Talk in all its manifestations — intimate, interactive, inclusive, and intentional — is the cultural instrument required to get people engaged.

All of this year’s best business books on organizational culture present fresh and actionable ways for building stronger and more resilient companies. But they do it without going big. Instead, they zoom in on the day-to-day behaviors, attitudes, and ways of talking and thinking that support growth and transformation — one meeting, one insight, one conversation at a time. +

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Of Markets and Morals

by James O’Toole

THE 2008–09 FINANCIAL MELTDOWN, and the continuing failure of the global economy to fully recover from that blow, has prompted legions of economists and social scientists to author books with recommendations on how to resolve what is now widely referred to as the “crisis in capitalism.” Unfortunately, those experts disagree about what caused the crisis, how to remedy it, and what the underlying problem with the system may be (or if there even is one).

Arrayed right to left across the political spectrum, the lineup of such works this year begins at one extreme with Why Capitalism? (Oxford University Press, 2012), by Allan H. Meltzer, a professor of political economy at Carnegie Mellon University. In his book, Meltzer concludes that the financial crisis was caused by government actions and has been prolonged by critics of capitalism focused on “property confiscation and redistribution” in the name of “equity and fairness.” He astringently argues that these types of moral values and ethical principles have no part to play in economic systems that are, and must be, amoral and evaluated by one metric only: their ability to generate economic growth. Hence, his solution to capitalism’s current crisis is simple: We need totally unregulated markets.

At the other ideological extreme is Joseph E. Stiglitz’s The Price of Inequality: How Today’s Divided Society Endangers Our Future (W.W. Norton, 2012), in which the Nobel Prize–winning economist basically rebuts Meltzer’s familiar libertarian arguments with equally familiar egalitarian ones. Personally, I doubt readers will find much that is useful in either of those books — or in the dozen or so other recently published ones that, similarly, are ideologically bent. Certainly, readers will find nothing that wasn’t said, and said better, decades ago in Milton Friedman’s seminal Capitalism and Freedom (University of Chicago Press, 1962) on the right, and in Arthur Okun’s classic Equality and Efficiency: The Big Tradeoff (Brookings Institution, 1975) on the left. Now, those books are worth reading, and that’s why I am eschewing the extremes and recommending three new books that are a bit closer to the center of the spectrum.

Crony Capitalism

In A Capitalism for the People: Recapturing the Lost Genius of American Prosperity, Italian-born University of Chicago finance professor Luigi Zingales — who, significantly, is a libertarian disciple of Milton Friedman — argues that the current crisis of capitalism stems...
from an unholy alliance of Wall Street financiers and Washington politicos. He claims the effects of this “crony capitalism” amount to about the same thing as having the government own the means of production and commissars set the price of goods and services. Either way, democracy is compromised and the economy is made inefficient.

Zingales says that the two political parties are equal offenders in this unholy alliance, the poster children for which are former U.S. Treasury secretary and Citigroup executive Robert Rubin and former Goldman Sachs chief and Treasury secretary Hank Paulson. The author offers evidence that conflicts of interest are the water in which such crony capitalists swim. More insidious — because they are less visible — are the thousands of corporate lobbyists in a symbiotic relationship with D.C. officialdom, both on the Hill and in regulatory agencies. The sum of all this mutual back-scratching amounts to old-fashioned corruption, perhaps not to the degree found in Zingales’s native Italy, but tending in that direction.

Most pointedly, Zingales claims the financial crisis was, and is, the inevitable outcome of a system in which large, publicly traded corporations operate in highly concentrated markets and thus have so much economic clout that they compete with one another more for political favors, such as subsidies and regulatory exemptions, than for customers. Thanks to a facilitating government, Zingales argues, market competition exists among global corporations today mainly in theory, and he believes the public’s trust in this system is now at the breaking point.

But Zingales parts company with his fellow economists on the right by firmly grounding his arguments in the language of values and morality. (“Most economists recoil at the word ethics,” he reminds us.) He believes the United States can have both fairness and prosperity; moreover, he says we are unlikely to get the latter without the former. Indeed, he sees the failure to provide both fairness and prosperity as the fuel behind the Tea Party and Occupy movements: Ordinary people at both ends of the political spectrum are outraged by government bailouts of incompetent financiers and the fact that egregious rewards consistently go to corporate executives who are better at exporting jobs than goods.

Zingales also concludes that the current concentration of wealth and political power in the U.S. undercuts the equality of opportunity necessary for an efficient and just meritocracy.

Clearly, such a critique is uncharted territory for a libertarian economist; Zingales’s argument that the U.S. needs policies that are “pro-market” as opposed to “pro-business” would not convince either Meltzer or Friedman. Yet his proposals come primarily out of the libertarian canon. To increase meritocracy, Zingales advocates vouchers for primary and secondary education. To reduce the economic power of giant corporations, he favors more antitrust activity, tighter limits on copyrights and patents, and greater use of class-action suits (all in place of government regulation). To decrease corporate clout in Washington, he would put a progressive tax on political contributions. Most intriguingly, he would attempt to bring greater transparency to the system by requiring greater access to corporate data because the public “shaming” of corporations and financial institutions is the most powerful, and underutilized, way to instill the market-based ethics needed to restore faith in competitive capitalism.

In sum, the first half of Zingales’s pro-market, anti-corporation book makes the case that the U.S. is going to hell in a handbasket politically and economically; unfortunately, the proposals he offers in the second half appear inadequate to the task of redemption. As in Dante’s Inferno, it seems we sinners may end up having to abandon all hope.

The Amoral Market

Zingales’s most controversial proposal — to replace the current method of financing higher education through debt (loans) with equity financing, in which investors would own a share of the college graduates’ later income — illustrates his basic belief that there are market solutions to almost every social problem. Michael J. Sandel, a Harvard professor of government, agrees that market solutions are usually more efficient, but says that they
often carry a heavy ethical price tag. In *What Money Can’t Buy: The Moral Limits of Markets*, he takes direct aim at the most basic assumption of libertarian economists, namely, that unfettered markets lead to the optimal and virtuous (because everyone benefits) allocation of goods.

Sandel argues that we are living in an era of “market triumphalism” in which everything is for sale, including the right to immigrate, admission to elite universities, and life insurance policies that are taken out on unsuspecting old and dying people by strangers. He worries that if the likes of Meltzer and Zingales have their way, we will end up monetizing and commercializing every activity relating to our health, education, public safety, procreation, recreation, environmental protection, and all the other social goods that were once the domain of families, communities, churches, and civic organizations. “Putting a price on the good things in life can corrupt them,” he writes. He not only feels this trend leads to irresponsible risk taking, but claims it undermines individual ethics and erodes the Tocquevillian “community capital” needed to bind people together in democratic society.

Sandel’s special talent is the use of simple, workaday examples to explain complex philosophical issues and to illustrate the corrosive tendency of markets. For instance, he tells the story of a day-care center that faced the problem of parents showing up late to pick up their children, necessitating paying a teacher to stay late until all the kids were fetched. To solve the problem in an economizing way, the center decided to impose a fine for late pickups to “incentivize” tardy parents to show up on time. The result: Late pickups increased. In another example, lawyers in one community refused to reduce their fees by 30 percent when a social welfare agency asked them to do so for impoverished clients, but the same lawyers later agreed to represent those poor folks *pro bono*.

Sandel uses such examples to demonstrate the powerful role social norms play in a community, and how readily those are lost when money enters into the equation. No radical, he calls for neither economic equality nor the redistribution of wealth; instead, he argues that values such as striving for fairness and holding certain things “sacred” (for example, national parks, human life, and access to education) need to be shielded from the market. When everything is for sale, he says the effect is to segment society between those who can afford access to basic and common goods and those who can’t — as the once democratic experience of attending a ball game has been corrupted by the ability of the wealthy to segregate themselves into the gated communities called skyboxes. “What matters is that people of different backgrounds and social positions encounter one another,” he writes, “for this is how we learn to negotiate and abide our differences, and how we come to care for the common good.” In essence, he is arguing that most policy decisions have moral as well as economic dimensions; hence, a reductionist pure market orientation will “crowd out nonmarket norms worth caring about.”

**Gut Feelings**

In focusing on Zingales and Sandel, I have run the risk of implying that their books are representative of the numerous volumes published this year on the future of capitalism. In fact, there were no “typical” books on the subject. For example, Zingale’s and Sandel’s volumes are nothing at all like ethicist Rogene Buchholz’s *Reforming Capitalism: The Scientific Worldview and Business* (Routledge, 2012), a fine scholarly text that examines the role business education played in creating the system’s current crisis, nor do they have much in common with the passel of management-oriented volumes on such related topics as conscious capitalism, benefit corporations, social entrepreneurialism, social capitalism, and the like. And, as the reader may have noted, Zingales and Sandel actually seem to agree about a few things, which makes their books quite unlike the others by economists that found their way to my desk this year, books representing an unfathomably — and, I dare say, absurdly — divergent range of opinions. In all, 2012 was such a banner year for books about capitalism that many are deserving of serious review. Yet I doubt that reading more of them would help bewildered readers, like me, decide whose arguments are closest to being correct. So, how is one to know?
According to psychologist Jonathan Haidt’s *The Righteous Mind: Why Good People Are Divided by Politics and Religion*, most of us find the logic of the arguments presented by economists and other experts irrelevant to our own process of deciding which (or who) is right. He presents strong evidence that where we find ourselves on the ideological spectrum is based on our emotions, and not reason, and that our feelings are largely (but not exclusively) determined by our genetic makeup. In the words of librettist W.S. Gilbert, we are each born either a little liberal or a little conservative, and there is not much even a Nobel laureate can say to convince us we are wrong.

As Haidt explains, when we are faced with higher-level questions involving morals, values, and first principles, “intuitions come first, strategic reasoning second.” In other words, we immediately make up our minds about matters of right or wrong based on our gut feelings, and only later do we invent logical arguments to justify our positions (or to try to convince others).

Haidt demonstrates that “the mind is divided, like a rider [logic] on an elephant [intuition], and the rider’s job is to serve the elephant.” Moreover, he claims the elephant of emotions is “99 percent of the mental process,” and that’s why politicians who appeal to logic have so little success at changing the minds of the electorate. Indeed, Haidt doubts that more than a few people ever change their minds on value-laden issues on the basis of logical reasoning. Nonetheless, I believe his analysis would have been more forceful had he drawn distinctions between what I believe are three separate levels of values: personal values, such as honesty, loyalty, and integrity; organizational values, such as service, quality, and innovation; and societal values, such as liberty, equality, and community. If, as I suspect, those are different orders of goods, isn’t there an analytical danger in treating them as fungible?

Indeed, because I so resisted Haidt’s unwelcome conclusions, I found myself arguing with him on every page. Doesn’t he draw too neat a distinction between liberals and conservatives? (Isn’t there a full ideological spectrum from left to right?) Doesn’t he come perilously close to advocating moral relativism? (Aren’t there some things, like racial and religious intolerance, that always are wrong?) But therein lies the book’s great strength: It engages, challenges, and ultimately informs the reader as the author effortlessly presents a concise overview of the most significant recent controversies concerning human nature.

I learned a lot reading this book. It helped me understand how I responded to the other books reviewed above and, thus, helped me appreciate why it is going to be so difficult to bridge the ideological divide in order to resolve the crisis of capitalism. That’s why I believe it is the best book of the year in this category. For my money, it is the best social science book since Philip Zimbardo’s *The Lucifer Effect: Understanding How Good People Turn Evil* (Random House, 2007). It is so good, in fact, that I am almost able to overlook the fact that Haidt’s method contradicts his own thesis: He successfully changed my mind based on his reasoning, and not on an appeal to my emotions!

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