

BerlitzTM ENGLISH

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Business II

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BerlitzENGLISHTM
Language for life.

Business II

**Berlitz Languages, Inc.
Princeton, NJ
USA**

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Welcome to

BerlitzENGLISHTM

Business II

In today's business climate, being able to speak English well is one of the soundest investments you can make. At Berlitz, we understand your goals. And we can help you reach them.

Our business programs are designed to help you speak with greater fluency, accuracy, and confidence. Our courses combine practical business language skills, essential vocabulary, and time-saving communication strategies to get you the results you want in the most efficient way possible.

Our *Business II* program focuses on "big picture" issues facing all companies in today's business world, from launching a new venture and growing the business, to managing change and dealing with risk, to determining what makes a true leader in the 21st century. We are pleased to bring you excerpts from leading authors and consultants on all these topics. We hope they prompt many a lively discussion in your classes.

We are excited to bring you five exclusive interviews with two consulting experts — Chris Zook of Bain & Company and Maya Hu-Chan, an independent consultant. We hope you will find their comments as thought-provoking and insightful as we do.

To get the most out of your Berlitz Business English classes we urge you to attend every class and to schedule the most intensive program you can manage. You can also accelerate your progress by completing the Practice exercises provided in this course book, by visiting BerlitzEnglish.com, by reading the articles from major English-language business publications at the end of each chapter, as well as other English-language publications and Websites.

If there is anything we can do to make your learning more successful and enjoyable, please let us know. We'll do everything we can to help you reach your goals.

We wish you the very best of success in your English studies.

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-

Growth Strategies 101

2 Presenting Strategic Initiatives



**KIDS &
TEENS
GROUP**

Proposed Strategic Initiatives

- ▶ Redesign of Skater logo & concept, "Sk8rBoiz" & "Sk8rGrrlz"
- ▶ Introduce "Sk8rs" apparel in big-box retail outlets
- ▶ Expand e-commerce
- ▶ Sign co-marketing agreement with major sports drink manufacturer
- ▶ Explore movie / TV placements and music tie-ins

FYI
big-box retail outlets:
very large stores whose
profits are generated by
high sales volumes as
opposed to high mark-ups;
examples include:
Wal-Mart, Carrefour,
Home Depot, and Ahold.

3 Where Do Companies Look for Growth?

INTERNAL GROWTH

(a.k.a. "organic" growth)

Expand into
new countries
or markets



Develop new
products or
services



Acquire
new
customers



Invest
in the
business

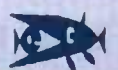


EXTERNAL GROWTH

Pursue
alliances with
third parties



Merge with
or acquire
another business



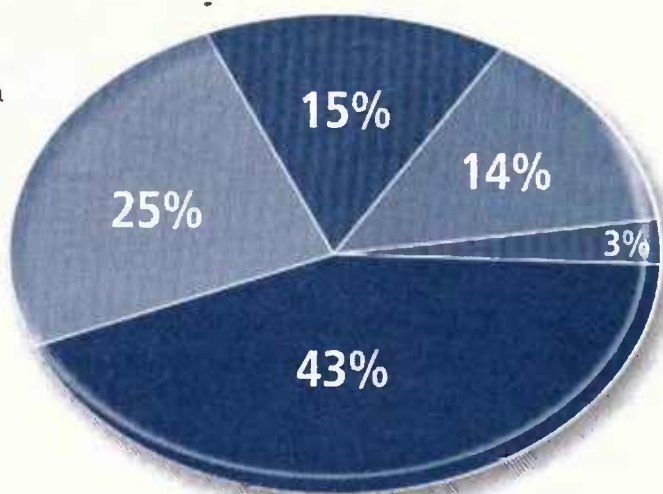
4 How CEOs Rank Growth Strategies

Percentage of *Inc.* 500 CEOs in low- or no-growth industries who attributed their company's rapid growth to:

43% Gaining market share
by offering a superior
product or service or a
better price

25% Offering a unique
or innovative
product or service
that was not
affected by
industry trends

3% Other



15% Gaining market
share through
superior
marketing / sales
strategies

14% Taking advantage
of a particular
business
circumstance
(e.g., an alliance
with a leading
customer)

Pursuing Growth Through Alliances

5 Strategic Alliances: What and When?

The term “strategic alliance” can mean many things. In its broadest sense, it can apply to virtually any form of collaboration between two or more companies, including:

- joint product development
- purchasing agreements
- distribution agreements
- technology transfer agreements
- marketing and promotional collaboration
- creative or intellectual collaboration

Source: www.exportmichigan.com

Before forging a relationship with a strategic partner, it is essential to learn as much about the prospective partner's organization as possible. Due diligence should include an assessment of the partner's:

- *top management* — How strong is its leadership?
- *management philosophy* — What does the partner value?
- *reputation in its industry* — Does it have a reputation for delivering quality?
- *capacity and capabilities* — What are its financial and physical resources?
- *compatibility* — How compatible are the partner's objectives with the firm's?
- *patents* — Does the partner own patents and/or intellectual property rights that are key to the strategic alliance? Can the partner protect the firm's intellectual property?
- *integrity* — Can the firm trust the partner?

Adapted from “Guidelines for Strategic Partnership Alliances,” published by Small Business Innovation Research / NASA

6 When Competitors Become Partners

Nine-year-old Johnny Taylor says to his little sister Liza: “My Power Ranger can beat your Barbie.”

Unfazed, Liza replies: “My Barbie doesn't want to fight. She wants to be friends.”

Liza knows of what she speaks. In October 1999, Mattel and Bandai, two of the top three toy companies in the world and makers of Barbie dolls and Power Rangers action figures respectively, created a strategic alliance to further global growth for both companies.



Under the terms of the agreement, Bandai has been selling the Barbies, Hot Wheels, and Fisher-Price product lines in Japan since January 2000. Mattel has been marketing Bandai products, such as Power Rangers and Digimon toys, in Latin America since November of 1999.

Bandai has also been involved with adjusting Mattel's brands to match the Japanese market more carefully. The Japanese toy giant says this of its strategy: “Bandai consistently looks for opportunities to grow its brands both domestically and globally with expanding partnerships in entertainment, as well as strategic alliances with its competitors.”

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CHAPTER / TITLE	TOPICS	OBJECTIVES	EXPRESSIONS
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2 Launching a New Venture Page 8	Management styles that foster innovation Innovation as a core capability Best practices of ground-breaking companies Staffing a new venture	Describing the process for launching a new business Describing management styles that lead to innovation Naming DOs and DON'Ts for companies seeking to innovate	<i>buy-in; stiff resistance; living on borrowed time; get in someone's way; ante up; fall into the trap of</i>
3 Managing Risk Page 16	Decision-making under uncertainty Knowing what is at stake Benefits of risk management	Describing risk in the business world Explaining what is at risk Describing risk management and its benefits	<i>put one's thoughts on paper</i>
4 Making Change Work Page 24	Envisioning the future Factors that drive change Transforming organizations The human element Change agents	Explaining the concept of "vision" Discussing the factors that drive change Enumerating the steps in the change process Describing the ideal change agent	<i>Don't get me wrong. work its way through the ranks; have their work cut out for them; win over; command and control; the system is stacked against you; pick your battles</i>
5 Leadership Page 32	The attributes of a leader Managers vs. leaders Principles of leadership	Describing qualities commonly associated with leaders Explaining the difference between managing and leading Talking about what good leaders do	<i>only a matter of time; at the helm; find one's way; lay the blame; phone it in; show up; turn them loose</i>

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Chapter 1

GROWING THE BUSINESS

Topics

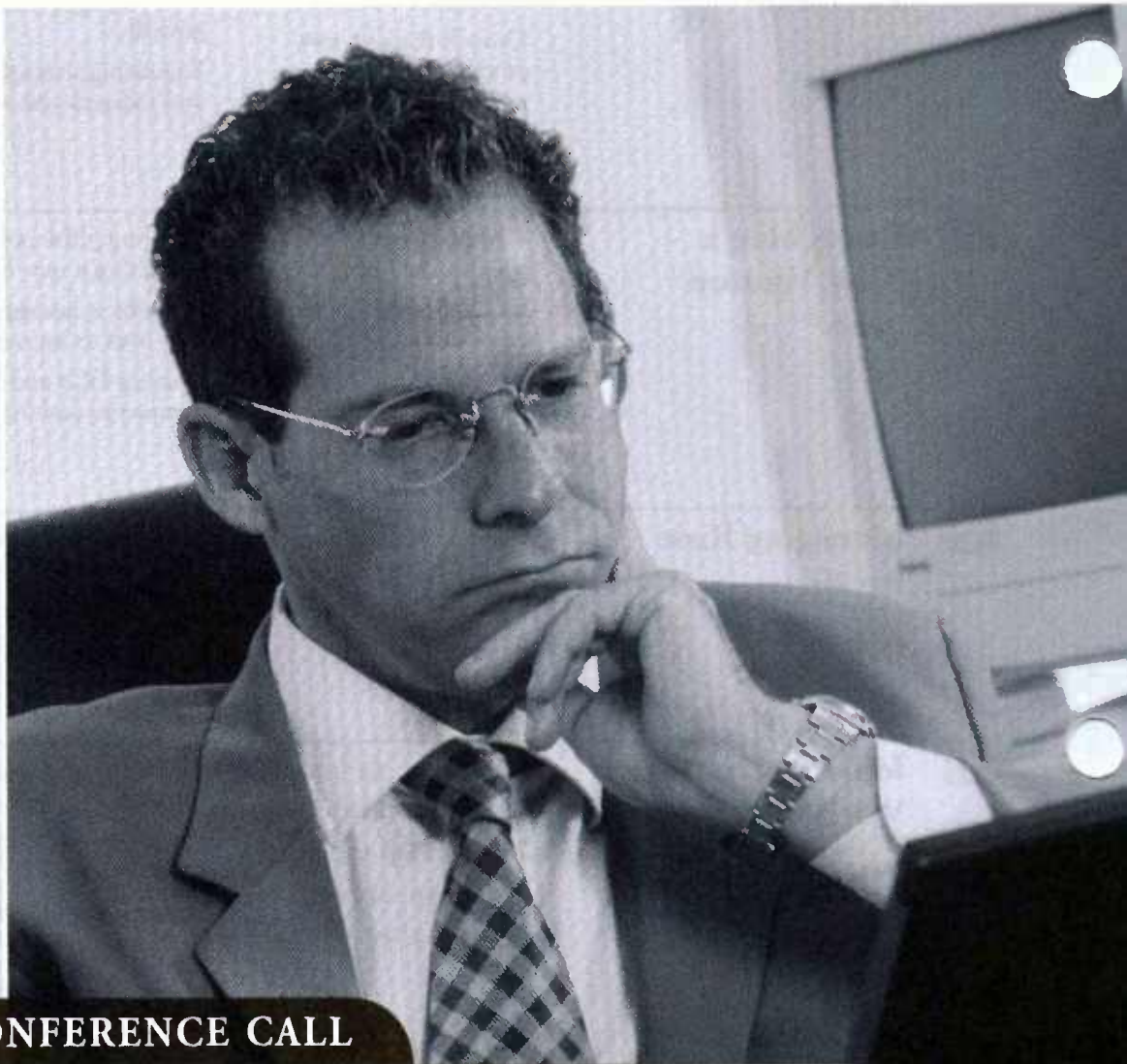
Types of growth
Strategic initiatives
Growth through new product development
Growth through alliances
Mergers and acquisitions

Objectives

Describing growth strategies
Comparing approaches to growth
Discussing strategic alliances and mergers and acquisitions

"No one ever grew a business saving money."

a well-known saying



I ARRANGING A CONFERENCE CALL

Dear Colleagues,

I'd like to set up a conference call to get your feedback on the strategic initiatives for our Skater line that I've described in the attached presentation. Would you be available Monday, July 14 at 9:00 a.m. New York time? (This will be rather late for those of you calling in from Asia. We'll try to keep the call to under an hour.) Here are the points I'd like to cover:

1. Skaters Growth Opportunities

- Have we left out or failed to consider any opportunities for growing the Skater market?
- Have we listed anything you think we should omit?

2. Ranking the Strategies

- Please rank the strategies with regard to the potential size of their contribution to revenue in your country (1 being the smallest; 10 the highest). I would greatly appreciate it if you could e-mail your rankings to me before the meeting.

Thank you.

Best regards,

Roger Wilson

Worldwide Manager – Kids & Teens Group, Big Blue Sky, Inc.

7 Mergers and Acquisitions — Excerpts from a Panel Discussion

The following excerpts are from a 1998 PBS *NewsHour* discussion on mergers and acquisitions. The panelists: Bruce Wasserstein, an investment banker involved in many large mergers; Jim Grant, an economic writer and editor; Fred Weston, a professor who teaches mergers and acquisitions at the Anderson School of Management at UCLA; and Walter Adams, author of *A Dangerous Pursuit, Mergers & Acquisitions in the Age of Wall Street*.

Adams: Mergers do not create new wealth. They don't build new factories. They don't create new products. They don't provide new technology. They do not increase efficiency. Nor do they — in and of themselves — stimulate international competitiveness. They represent merely a rearrangement of existing assets — the trading of ownership shares on the floor of the Stock Exchange. You might call it rearranging the deck chairs on the *Titanic*.

Grant: It's not coincidental that merger waves have occurred in eras of very high prices. If, on balance, the acquiring companies tend not to do very well, perhaps it is because they've overpaid, perhaps because they had the courage to buy when everyone else had the courage to buy. It's no secret that merger activity is quiescent when assets are cheap. Why is that? Well, there's no courage to lend; there's no courage to borrow; there's no courage to imagine great things.

Weston: When massive restructuring has taken place — it's more than just laying off people. It's changing top management. It's changing product selection. It's changing product quality. It's changing manufacturing processes. It's supplying new information systems. The difference between the mergers that fail and the mergers that succeed are that the mergers that succeed really make a fundamental change in the efficiency of the companies. And then they do succeed, and then they do contribute to the performance of the economy.

Adams: The people who profit most from mergers are the marriage brokers on Wall Street who put these mergers together in the first place, and then five or ten years later, these same people preside over the divorce of these companies, and they get a commission at either end.

Wasserstein: Mergers are a very imperfect process. They allow the economy to adjust to all sorts of changes, regulation, technology, globalization. A lot of them don't work. It is imperfect.

Excerpted from The NewsHour with Jim Lehrer (May 26, 1998). Reprinted with permission from MacNeil-Lehrer Productions.

8 And Many Marriages Later...

With beginnings two hundred years ago in Philadelphia, 130 years ago in Wellington, New Zealand, and nearly 300 hundred years ago in London, GlaxoSmithKline has seen a series of mergers and acquisitions transform the shops of two druggists and a producer of dried milk into a world-leading, research-based pharmaceutical company with over 100,000 employees in 39 countries.

A summary of the “marriages” that occurred along the way —

1891 Smith, Kline & Company acquires French, Richards & Company	1958 Glaxo acquires Allen & Hanburys Ltd	1982 SmithKline acquires Allergan, and merges with Beckman Instruments Inc
1938 Beecham acquires Macleans Ltd and Eno's Proprietaries Ltd	1959 The Wellcome Foundation acquires Cooper, McDougall & Robertson Ltd	1986 Beecham acquires Norcliff Thayer
1939 Beecham acquires County Perfumery Co, Ltd	1960 Smith Kline & French acquires Norden Laboratories	1989 SmithKline Beckman and the Beecham Group plc merge to form SmithKline Beecham plc
1947 Glaxo Laboratories Ltd. absorbs the Joseph Nathan Company	c.1965 Smith Kline & French acquires RIT (Recherche et Industrie Therapeutiques)	1995 Glaxo and Wellcome merge to form Glaxo Wellcome; Glaxo Wellcome acquires Affymax
1949 Beecham Group Ltd acquires C. L. Bencard Ltd	1978 Glaxo acquires Meyer Laboratories Inc	1998 Glaxo Wellcome acquires Polfa Poznan
		2000 Glaxo Wellcome and SmithKline Beecham merge

Source: gsk.com

9 Bain on Growth

Berlitz: Joining us today by telephone to share his insights on strategic growth is Bain & Company consultant and author, Chris Zook.

Chris Zook is author of the now classic *Profit from the Core*. A Director at Bain & Company and head of their Global Strategy practice, Zook has been helping corporations devise growth strategies for 20 years. He has recently published *Beyond the Core*, the featured title in Harvard Business School Press' winter line-up. Chris Zook, thanks for speaking with us today.

Zook: My pleasure, thank you very much.

Berlitz: In your book *Profit from the Core* you say that the first step in determining how to grow profits is to identify the core business. How does a company do that?

Zook: Well, it's certainly tough to decide what to become in the future, through growth, if you don't know who you are now. Understanding your core is the first building block of growth strategy. It comes through both thought and analysis about the areas where you beat the competition, where you have unusually loyal customers, and where you can earn above average profits relative to your competitors.

Berlitz: Is there a magic number of core businesses a global corporation should have?

Zook: During some extensive research we did at Bain & Company on about 8,000 companies in the G7 economies, we found that only 13% of companies worldwide achieved even a modest level of sustained and profitable growth over the past 10 years. Our analysis shows that the most successful companies were those companies with one or two very strong cores where they had leadership and where they built growth programs around those cores with the patterns over time almost looking like the growth rings of a tree. Conglomerates with many different cores fared somewhat worse than focused companies with a single strong core with a small number of exceptions, such as G.E. Yet even a closer look at G.E. reveals that Jack Welch, when he took over as chief executive, cut back the number of core businesses from over twelve to around five.

Bain & Company is one of the world's leading global business consulting firms, serving clients across six continents. Founded in 1973, the company has 29 offices in 19 countries around the world.



Chris Zook



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10 Some Concepts Are Better Left *Unlaunched*

Two months after launching the concept nationwide, McDonald's discovers a tiny flaw in its "dollar menu" strategy: Charging folks a buck for a burger tends to lower profit margins. The fast-food company posts its first quarterly loss in 38 years as a publicly-traded company, and CEO Jack Greenberg retires.

Excerpted with permission from "The 101 Dumbest Moments in Business, 2003 Edition," Business 2.0, April 2003

Chapter Check

Now you can ...

A Describe growth strategies



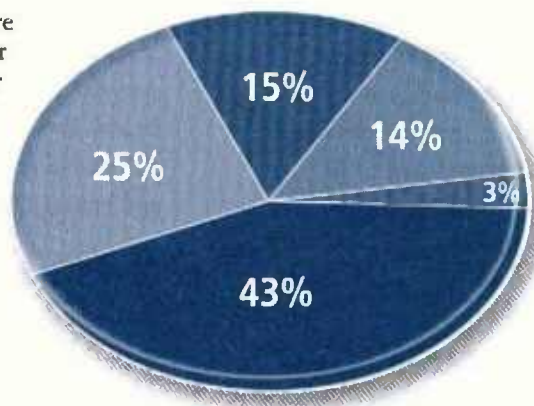
Where do companies look for growth? How do these strategies work?

B Compare approaches to growth

43% Gaining market share by offering a superior product or service or a better price

25% Offering a unique or innovative product or service that was not affected by industry trends

3% Other



15% Gaining market share through superior marketing / sales strategies

14% Taking advantage of a particular business circumstance (e.g., an alliance with a leading customer)

Which approaches to growth are most effective? Why?

C Discuss strategic alliances, mergers, and acquisitions

1891 Smith, Kline & Company acquires French, Richards & Company
1938 Beecham acquires Macleans Ltd and Eno's Proprietaries Ltd
1939 Beecham acquires County Perfumery Co, Ltd
1947 Glaxo Laboratories Ltd. absorbs the Joseph Nathan Company
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1998 Glaxo Wellcome acquires Polfa Poznan
2000 Glaxo Wellcome and SmithKline Beecham merge

Do strategic alliances work? Why? / Why not?

What factors contribute to the success / failure of a merger or acquisition?

Making Mergers Work

by Stephen J. Wall

1. Develop a Systematic, Flexible Integration Process.

Companies that use acquisitions as a strategic lever rarely do only a single deal; acquisitions are ongoing and often overlapping, with several happening at once and more to come. The most successful acquirers have developed a clear, logical, and replicable approach to managing the entire process. Cisco, for example, the global leader in networking for the Internet, whose acquisition program has been the foundation of its huge success, has just such a process.

While the Cisco process is consistent and well-documented, flexibility is the key to its effectiveness. Every acquisition is different, and Cisco's people are experts at adapting their methodology to the unique needs of each one. Cisco's flexibility is based on the recognition that there are certain major categories of decisions and actions that need to be addressed in every acquisition, but not in the same way or sequence every time.

2. Avoid the Speed Trap.

One of the most frequently heard pieces of merger advice is: "Act quickly — don't make people wait for decisions." But although acquisitions sometimes fail because decisions are not made in a timely way, it's more important to make the right decisions than to make them quickly. Some decisions really need to be made soon after the deal closes, or even before. Others will require more deliberation, input, and involvement.

3. Address the "Me" Issues.

When employees learn there's going to be an acquisition, the first thing they want to know is, "What will happen to me?" Until that question is answered, they will be unable to concentrate on getting the work done. "Be honest about what you are doing," says Mark King, EVP and CFO of Dallas-based Affiliated Computer Services (ACS), which has a very active acquisition strategy. King added, "Some acquirers have two financial models, one that says they are not going to cut anybody, and a secret one that says they're going to cut 10 percent of the workforce and shut down two factories. You've got to create trust. The second that people catch you in a lie, your credibility is shot and they start leaving."

4. Build in Two-Way Communication.

It's not enough to send people memos or even whole packages of information about the merger. They need a chance to air their concerns. Of course, there will inevitably be times when employees have to be "left in the dark," because it is not yet clear what needs to be done or by whom. In such cases, the best course is to tell them things are up in the air. When they're told nothing at all, the rumors start flying.

5. Involve People at All Levels.

It's only natural for people to feel more committed to ideas and projects that they've had input in. If senior people alone are making the decisions, or if only people from the acquiring company are consulted, the level of commitment is bound to be low. Even more importantly, there's no chance of arriving at the kind of synergies that can only emerge from the experience and brainstorming of the people doing the work.

6. Get People Talking.

Probably the most effective way to avoid the destructive conquered vs. conqueror mindset is to ensure that as many people as possible in the two organizations get to know each other early in the process. That means not just sending in the acquirer's people to tell their counterparts in the acquired company what is expected of them, but encouraging a free exchange of opinions and ideas. In the course of doing real work, strategizing, and solving current issues together, terrific breakthroughs can be made.

Having people sit down and talk to each other from the outset is not a cure-all, but it's certainly a start. When people from both sides get to know one another as individuals and talk to one another frequently, they are much less likely to think in terms of "us" and "them." And for a merger to be truly successful, "us" and "them" needs to give way, over time, to something new and different — a constantly evolving and more competitive entity.

— STEPHEN J. WALL is a senior consultant with Right Manus, a division of Right Management Consultants, and co-author of *The Morning After: Making Corporate Mergers Work After the Deal Is Sealed*.

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Key Words

acquire (v.) to obtain a new possession: *If our company is acquired by a larger firm, we may lose our jobs.*

acquisition (n.) something recently acquired or obtained: *One of our most recent acquisitions is the restaurant chain that we purchased at the beginning of the year.*

alliance (n.) mutually beneficial partnership or affiliation: *Dexter Enterprises entered into a strategic alliance with its chief supplier in an effort to better control costs.*

boundary (n.) a line indicating the limit of a territory or area: *Pixar stretches the boundaries of digital animation with each new film it produces.*

capability (n.) ability: *We decided to give the contract to DigiServ because of their capabilities with regard to day-to-day IT support and Website maintenance.*

capacity (n.) maximum space available for containing or supporting something: *We plan to expand our warehouse capacity in preparation for the new product line.*

coincidental (adj.) occurring at the same time but without related causes: *Many people wondered if it was coincidental that the building burned down a month after the owner had purchased fire insurance.*

compatibility (n.) the ability to work or exist with another in harmony: *Brian feels a high level of compatibility with the values and goals of the firm. For this reason, he's hopeful that he will be offered a position there.*

conglomerate (n.) a corporation made up of many companies in a variety of industries: *For many years, Shebco was the largest conglomerate on the continent with interests in oil, detergents, food products, and construction.*

core (n.; also used as adj.) the central or most essential part of something: *Sanford Industries sold several of its business units last year so that it could focus its efforts on improving performance of its core business.*

courage (n.) internal strength to perform in difficult or dangerous circumstances: *Though small in stature, Tom has the courage of a lion and always does well in negotiations.*

devise (v.) to invent or create from existing principles: *Last year, Mr. Bates devised a way to increase production without increasing operating expenses.*

divest (v.) to sell off: *The large media conglomerate divested itself of its holdings in the music business.*

druggist (n.) someone who sells or distributes prescription medication: *The druggist at our local pharmacy is an expert on prescription medicines, but he is also familiar with natural remedies.*

due diligence (n.) research that is performed to protect an individual or property in a business transaction: *Both parties agreed on the terms of the deal. All that remained was the completion of the due diligence, which was being conducted by the auditors of both organizations.*

floor of the stock exchange (n. phrase) physical location where buyers and sellers of equity shares meet and transact business: *My stockbroker was once a trader, but he prefers a quiet office to the noisy, hectic floor of the stock exchange.*

forge (v.) a process to create something that requires great effort: *After many years and many attempts to sign a treaty, the two countries were finally able to forge a formal alliance.*

initiative (n.) an important plan or project: *The company was discussing several initiatives designed to improve revenue growth. However, it was unclear which of them had the most support among the members of the executive committee.*

integrity (n.) the quality of maintaining high moral standards and honesty: *The company's reputation for honesty and integrity suffered considerably during the government investigation of its accounting practices.*

marriage broker (n.) an individual who profits from bringing two parties together in marriage or partnership: *Phil Lebovsky is known on Wall Street as a successful marriage broker who has guided many corporations through difficult merger negotiations.*

merge (v.) to combine; to blend; to unite: *The owners of the two local firms knew both their businesses would suffer if they continued to compete against each other, so they chose to merge their organizations.*

merger (n.) the act or process of two or more things combining into a single entity: *While the merger seemed smooth and easy on paper, many employees were laid off when the two companies joined.*

patent (n.) legal protection restricting use or sales of an idea or creation: *The company applied for a patent to protect its newest invention.*

preside (over) (v.) to exercise control of: *The Chairman of the Board presided over the meeting of the shareholders.*

quiescent (adj.) still; at rest; quiet: *Because it was a national holiday, the usually busy and noisy streets of the business district were quiescent today.*

sustained (adj. from **sustain** (v.)) supported or held up; ongoing: *The company wasn't simply looking for growth this year. It was seeking sustained growth over a 5-year period.*

LAUNCHING A NEW VENTURE

Topics

Management styles that foster innovation
Innovation as a core capability
Best practices of ground-breaking companies
Staffing a new venture

Objectives

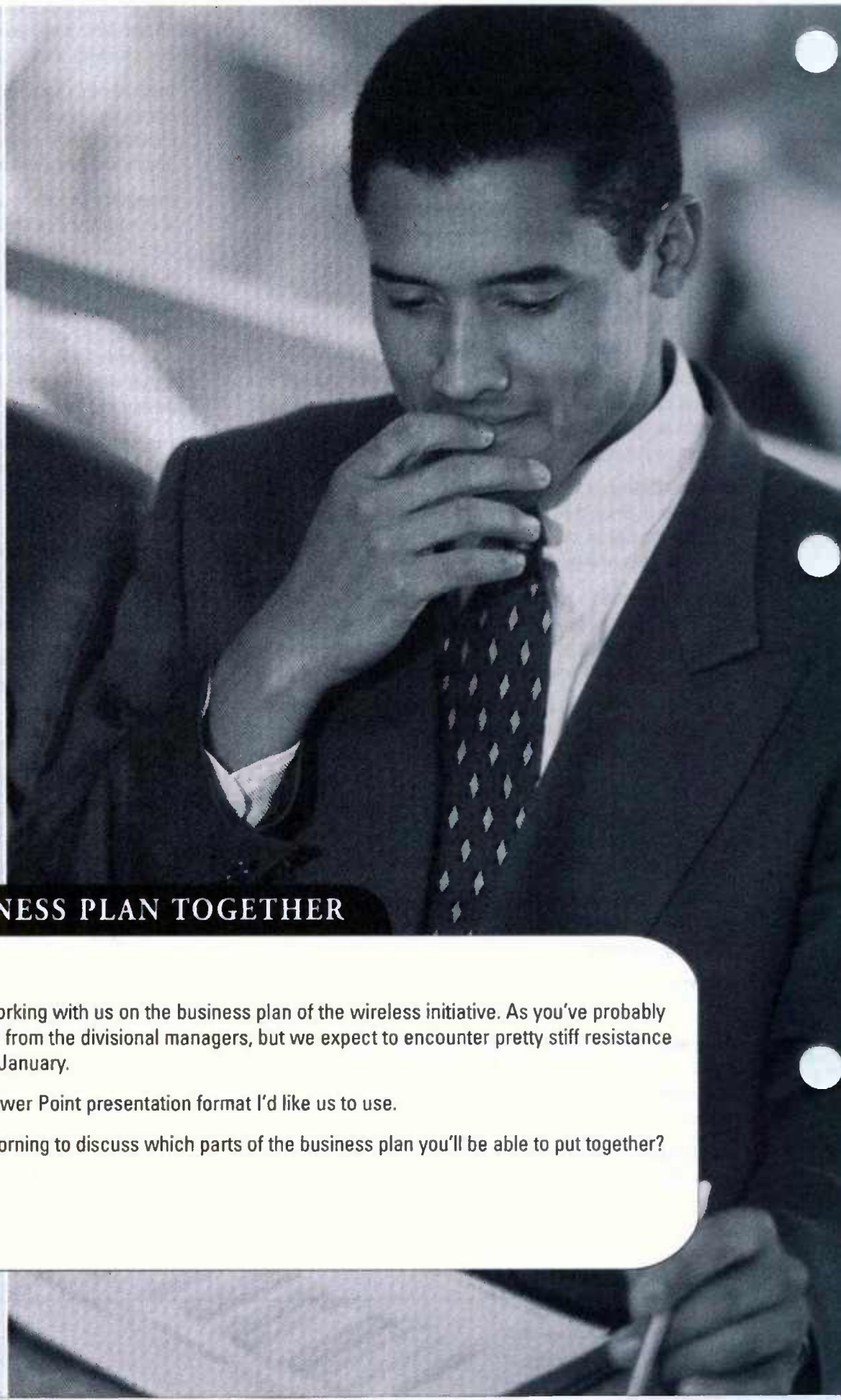
Describing the process for launching a new business
Describing management styles that lead to innovation
Naming DOs and DON'Ts for companies seeking to innovate

Expressions

buy-in; stiff resistance; living on borrowed time; get in someone's way; ante up; fall into the trap of

"New ideas create new wealth."

Gary Hamel
author, professor, and
management consultant



I PUTTING A BUSINESS PLAN TOGETHER

Dear Steve,

I'm happy to hear that you'll be working with us on the business plan of the wireless initiative. As you've probably heard, we've had excellent buy-in from the divisional managers, but we expect to encounter pretty stiff resistance when we present to the Board in January.

I'm attaching a template of the Power Point presentation format I'd like us to use.

Would you have time tomorrow morning to discuss which parts of the business plan you'll be able to put together?

Thanks.

Julia

2 Five Steps to Launching a New Venture



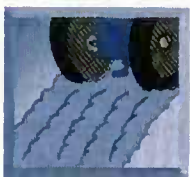
3 Manufacturing Ideas: 5 Management Styles that Lead to Innovation

Pierre M. Loewe, Peter J. Williamson, and Robert Chapman Wood, three experts in the field of corporate innovation and strategy, studied several successful companies and identified five distinct management styles that foster creativity and innovation:



THE CAULDRON – the team continually rethinks its business models and rapidly creates new models for both existing and new businesses

THE SPIRAL STAIRCASE – managers innovate so consistently and so often in their existing business that, over time, they repeatedly change its very nature



THE FERTILE FIELD – managers focus on finding new uses for existing strategic assets and competencies

THE PACMAN – the company invests in start-up businesses, then gobbles up those that prove themselves



THE EXPLORER – the company creates a series of relatively low-cost probes that progressively solve the problems that had prevented the innovation from happening earlier

Source: www.strategos.com

4 Making Innovation a Core Capability

More than 90 percent of large organizations claim to be committed to innovation, yet almost none can describe their corporate innovation system. Senior leaders of these organizations do not have a well-developed model of what innovation looks like as an organizational capability.

Many companies behave as if it's impossible or dangerous to innovate in the core business. In other organizations, innovation is a kind of once-every-five-years special project. Such companies need to start thinking of innovation as a deep capability. A company that is not experimenting with new business concepts is living on borrowed time. Corporate managers need to realize that in the long term the most important question for a company is not what you *are* but what you are *becoming*.

Source: "Innovation as a Deep Capability" by Gary Hamel, *Leader to Leader*, Winter 2003

5 Fostering Innovation: A Look at Some Best Practices

☆☆☆ *Get employees to communicate and collaborate with others in your organization*

Pfizer, the world's largest drug company, holds regular sessions for its scientists to share their research with their colleagues working on other projects. The idea is to let employees working on different projects learn what has been learned at one site and apply it to their own site. When a new idea works, Pfizer spreads the word throughout the organization.

Source: *Harvard Management Communication Letter*, March 2003

☆☆☆ *Create a group within the corporation that focuses on developing new business ideas*

For Nokia, the global telecommunications giant, developing innovative new products is a key part of the company's mission. Its Nokia Ventures Organization, formed in 1998, identifies and develops new business ideas outside the company's existing business groups. The company has also created a collaborative network that brings entrepreneurs and academics from outside the company and key Nokia researchers together.

Source: www.nokia.com

☆☆☆ *Integrate innovation into every employee's job description*

At 3M, the diversified technology company with interests in office supplies, graphics, electronics, telecommunications, healthcare, safety, and transportation, four key ingredients contribute to the company's culture of innovation: attracting and retaining imaginative and productive people; creating a challenging environment; designing an organization that doesn't get in people's way; and offering rewards that nourish both self-esteem and personal bank accounts. 3M-ers tout the 15% rule as evidence of the company's spirit of innovation. Inspired by Dick Drew, one of 3M's legendary inventors, the 15% rule encourages technical people to devote 15 percent of their time to projects of their own choosing.

Source: www.3m.com

6 The Risk of *Not* Innovating

When times get tough, businesses tend to retrench — to reduce expenses, to focus on the things they do well, and to cut back on research and development. This is precisely the time *not* to stop the work of innovation. The quickest way to waste money is to turn development programs on and off and on again.

Retrenchment simply establishes a new, lower equilibrium between revenues and expenses. It doesn't create competitive advantage — not unless you're reducing costs a lot faster than your competitors and doing so in ways that don't endanger long-term success.

JetBlue founder and CEO David Neeleman warns that "if you get into the mode where you're too petrified to do anything, you'll fall behind." And Art Collins, CEO of Medtronic, notes that "firms that don't innovate lose not only their current market position but also the ability to develop new markets."

In other words, retrenchment can buy you time, but it can't buy you a future.

Excerpted from "Why It's Time to Take a Risk," by Gary Hamel and Erick Schonfeld, *Business 2.0*, April 2003.

7 Launching a New Venture Outside a Corporation's Core Business

Launching a new venture is always risky, even when companies take the safest route and look to their core business for opportunities. Launching a venture in a related, non-core business — or an entirely different business — is riskier still.



Yet some corporations successfully grow the business outside the core. Apple, for one. The computer maker, known for product innovation and passionately loyal customers, launched an online music business in April 2003 that allows customers to download songs for 99 cents.

On a risk scale of 1 to 5, Apple registered a 10:

- the company had no previous track record on a large scale as a direct-to-consumer retailer
- the chaotic nature of the online music market makes the environment inhospitable — dozens of illegal sites allowing consumers to swap music files for free have been launched since the late 1990s; most have subsequently been shut down for violation of copyright
- and, yet, younger Americans, who fill the ranks of the file-swappers, still expect music to be free

The biggest question for Apple: Will any of these kids pay for music?

Apple has taken the plunge where most major record labels have feared to get their toes wet. The music industry wanted no part of any activity that would potentially cannibalize its lucrative CD sales. While music executives have been sitting on their hands, sales of portable MP3 players, which allow music lovers to listen to downloaded music files, have soared. And CD sales are fast eroding.



The industry's response? Cut costs. Bertelsmann (BMG), EMI, and Sony Music laid off more than 4,000 employees among them since 2001. Industry analysts have pointed out that with a worthy Internet file distribution system, record labels could cut expenses elsewhere: by eliminating manufacturing and distribution costs. Apple's solution has been music to the industry's ears: all five of the major labels — Universal, Warner, EMI, Sony, and BMG — have anted up tunes for the computer maker to peddle. Not only that, Apple has the support of several of the industry's biggest stars: Sheryl Crow, Bob Dylan, U2, and Christina Aguilera. The question remains: Will it work?

8 Staffing for Optimum Results

While there are any number of external factors that can spell *zoom* or *doom* for a new product or business, the factors over which corporate executives can exert a great deal of influence — the internal ones — must be managed for maximum benefit. Thomas Kuczmariski, senior partner and president of a management consulting firm in Chicago, has identified five “deadly sins” that new product and new business teams should avoid at all cost.

1. **The Visionless Team:** Without a clearly defined and agreed on set of goals and success criteria linked to the company's overall strategy, a new product team cannot determine what success looks like.
2. **The Wrong Team Leader:** Many companies still fall into the trap of choosing a project leader based on seniority instead of ability. New product leadership requires a unique skill set, different from that required to run an existing business.
3. **The “Are You Serious?” Syndrome:** Companies that take new product development seriously allow a reasonable span of time and relieve team members of at least half of their daily job functions.
4. **The Revolving Door:** In successful projects, once the team is selected, it stays intact until the end.
5. **A Motivationless Environment:** Developing a rewards and compensation structure to motivate team members is critical to the success of current and future innovation efforts.

Source: www.cio.com

9 Bain on Innovation

Berlitz: Joining us again by telephone to talk about innovation and launching a new business venture is Bain & Company consultant and author Chris Zook. Thanks for joining us today.

Zook: Thank you. My pleasure.

Berlitz: When does it make sense for a company to consider starting a new venture?

Zook: Well, new ventures are really just one part of an overall growth strategy for a company. We find that the best companies first invest in achieving full potential within their current core markets and products. At Bain & Company, we catalogued hundreds of growth moves and we found that the biggest mistake is to prematurely abandon the core for new ventures.

Now after guarding against that danger, the second priority is to push out the boundaries of the strongest core businesses into new territory, into the unknown. We call these types of moves *adjacency moves*. The average company today plans to double its market growth rate and to grow earnings at four times its market growth rate. The way most CEOs think they will do this is through adjacencies surrounding the core.

In attacking the topic of adjacencies, the very first thing to do is to map out all of the alternatives, all of the venture possibilities, and to develop a rigorous set of evaluation criteria to apply against the various new ventures. Though this sounds obvious, few companies agree on the criteria and fewer map out all the growth alternatives at one time and in one place.

Bain & Company is one of the world's leading global business consulting firms, serving clients across six continents. Founded in 1973, the company has 29 offices in 19 countries around the world.

Chris Zook is author of the now classic Profit From the Core. Zook, a Director of Bain & Company and head of their Global Strategy practice, has been helping corporations devise growth strategies for 20 years. His newest book, Beyond the Core, is the featured title in Harvard Business School Press' winter line-up.



Chris Zook



"Why don't you re-invent the wheel?"

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10 **The Art of Deception – Rule #1: Pull Wool Far Enough to Cover Eyes**

After hyping its new disposable cell phone as "innovative" and "technologically advanced," Hop-On sends a sample to a *San Francisco Chronicle* reporter, who cracks open the casing to uncover the phone's "revolutionary" secret: Nokia parts. The company explains that it had run into glitches and had missed its deadline.

Excerpted with permission from "The 101 Dumbest Moments in Business, 2003 Edition," Business 2.0, April 2003

Chapter Check

Now you can ...

A Describe the process for launching a new venture



How would you describe the process for launching a new product or business?

B Describe management styles that foster innovation



THE CAULDRON



THE SPIRAL STAIRCASE



THE FERTILE FIELD



THE PACMAN



THE EXPLORER

What are the different ways that companies innovate?

C Name DOs and DON'Ts for companies seeking to innovate

retrenchment

staffing appropriately

CORE CAPABILITY

best practices

LACK OF VISION

sticking close to the core

What should companies do / not do when building new business ventures?

In Handling Innovation, Patience Is a Virtue

Businesses Ponder New Technologies

Cambridge, Mass., Sept. 25 — In one of its current television commercials, the Hewlett-Packard Company describes itself as a leader in the science of nanotechnology. It invites consumers to imagine the exciting products of the future, like light bulbs that never burn out and “a cellphone so small an ant could use it.”

The advertising team probably did not run that one by R. Stanley Williams, who works in the nanotechnology trenches as director for quantum science research at Hewlett-Packard Labs in Palo Alto, Calif. Not surprisingly, Mr. Williams chose not to elaborate on the telecommunications needs of insects when he spoke here this week at the Emerging Technologies Conference at the Massachusetts Institute of Technology. Instead, he preached patience. Yes, it is possible to build a handheld device that can outperform all the earth's present computers, he said, but it may take 50 years to figure out how to make it.

He warned that customers will get fed up with innovations — including the wonders expected from nanotechnology, or the science of very tiny objects — that are oversold or underdelivered.

“They are a little bit jaded,” Mr. Williams said. “They’ve heard too much of this wonderful future, and they wonder why it isn’t here right now.”

Jeffrey R. Immelt, the chief executive of the General Electric Company, also counseled patience, to engineers and investors. He has poured extra money into research and development at G.E. while loosening timelines on projects that may not pay off for 10 years or more. For established companies, he said, investing in emerging technologies is a matter of survival.

“I just see very clearly that unless you’re out there pushing the envelope and driving innovation, you’re not going to get the kind of margins and the kind of growth that we need for a company like G.E.,” Mr. Immelt said. “I really see it as an economic imperative.”

Some experts warn that even the best corporate research efforts may not be enough

to ward off disruptions to their businesses that come from innovations out of left field. Inevitably, some of today’s household names will falter in the face of newcomers with better ideas, just as several mainframe computer companies were left behind in the wake of minicomputers and microcomputer companies disappeared with the advent of PCs.

Nathan Myhrvold, a former top scientist at the Microsoft Corporation who runs Intellectual Ventures, an investment firm in Bellevue, Wash., surmised that in the not-too-distant future, the top 20 companies in pharmaceuticals, with the exception of one or two, would be unfamiliar names.

“If you look at the pipeline of drugs in clinical trials,” he said, “way more of them were made by the little companies than the big guys.”

The conference, organized by M.I.T.’s Technology Review magazine, drew about 1,000 attendees from established companies like Cisco Systems, Inc., Kraft Foods Inc. and the Sprint Corporation, and even a few unknown start-ups.

They listened to colorful descriptions of nanotechnology as well as other innovations like developing hydrogen fuel sources and creating medicines based on genomics. Wireless technologies seemed among the ripest for products making their way onto the market, as demonstrated by four-year-old WideRay, a San Francisco company that was showing off the wireless capabilities of its proximity server, which allows a user to download information onto a personal digital assistant just by moving near it.

Despite the promise of these inventions, several speakers were fretful. Faced with a sluggish economy, many companies have reined in their research and development budgets.

David Tennenhouse, vice president of the Intel Corporation’s technology group, more than once lamented the insufficiency of government financing for basic research at universities. And Edward B. Roberts, a professor of technology management at M.I.T.’s Sloan School of Management,

pointed out that two-thirds of all corporate research and development expenditures are for short-term projects, not the long-term ones that will be the ground-shaking breakthroughs.

At the General Motors Corporation, research spending has stayed about the same in recent years, but Lawrence F. Burns, vice president for research and development and planning, said he has achieved better results by working with knowledgeable (and less expensive) researchers in China, India, Israel and Russia. Sharing is also a virtue, as in the research lab G.M. owns with the Boeing Company and the Raytheon Company.

“Each company has specific directive research and then shared research,” Mr. Burns said. “That’s a highly leverage-able thing.”

Lucien P. Hughes, research director for the technology labs at Accenture, the consulting company, agreed that alliances in research are now the norm.

“The days of the large-scale insular lab — not talking to the rest of the world — I think are over for now,” he said.

Finding the technology — either through internal ingenuity, outsourcing or acquisition — is only the beginning. For a time-honored company, breakthrough technologies can be as disruptive inside the company as they are externally. Too many companies are not structurally prepared to handle them, said Professor Roberts of M.I.T.

“It’s not all a question of a willingness to spend,” he said. “It’s a willingness to participate.”

Moreover, while many companies are trying to tie their research efforts more closely to their actual marketing needs, some of the most successful companies have faltered along the way by listening too closely to what their current customers want, and not planning for unknown markets.

“I do a lot of customer interaction,” Mr. Immelt of G.E. said, “but when it comes time to figure out nanotechnology, there’s no customer view on nanotechnology.”

As for whether old-school or upstart companies will dominate the innovation game in the coming years, Mr. Myhrvold of Intellectual Ventures said it is anyone’s guess.

“Really radical stuff,” he said, “is going to come bubbling up from random sources, like it always does.” — JULIE FLAHERTY

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Key Words

ante up (v.) to pay one's share: Every company involved in the investment fraud will be forced to ante up in order to reimburse the victims of their fraudulent behavior.

buy-in (n.) support for a new idea or project by individuals involved in implementation and use of the final product: Everyone from the secretaries to the CEO was asked for opinions on preventing conflicts and delays during the transition period, so there was significant buy-in throughout the organization.

cannibalize (v.) to steal away an essential customer base from an existing entity in creating or developing another entity or product: Companies must be careful when marketing a new product that it will not cannibalize sales of their existing products.

chaotic (adj.) confused, disorganized, uncontrolled, and/or unpredictable to an extreme degree: The business climate today is chaotic, forcing organizations to continuously reinvent themselves.

collaborative network (n.) a group of individuals or teams from different departments, organizations, or professions that work toward a common goal: The pharmaceutical company made progress on its cancer treatment drugs through the efforts of a collaborative network of doctors, researchers, patients, and their families.

fall into the trap of (v. phrase) to unknowingly become confined in an undesirable position or circumstance: If you do not define your team's goals and monitor progress at all stages of the project, you may fall into the trap of producing something that does not satisfy the company's needs.

foster (v.) to promote the development of; to encourage: The president of our company fosters an environment in which the opinions of all employees are valued. He regularly solicits feedback from employees at all levels of the organization.

get in the way of (v. phrase) act as a barrier: In large companies, administrative red tape frequently gets in the way of making changes quickly.

get one's feet wet (v. phrase) to take a first step in a new endeavor: Peter Watson's internship at the newspaper will allow him to get his feet wet in the field of journalism.

gobble (up) (v.) to eat hurriedly by consuming large pieces: GE has gobbled up dozens of small companies over the years.

innovate (v.) to change existing conditions by introducing something new: Because the company seeks to offer new and exciting products to its customers every year, the product development group is expected to innovate constantly.

innovation (n.) a new item, process, or concept: Introducing a process or technology into one's work flow can be thought of as a form of innovation.

innovative (adj.) characterized by or producing new concepts: The design team's innovative approach led to some unexpected breakthroughs.

living on borrowed time (v. phrase) temporarily postponing or avoiding the consequences of a current situation during a time of uncertainty: The start-up firm lived on borrowed time for nearly a year after its founder resigned. The firm eventually dissolved because an adequate replacement could not be found.

lucrative (adj.) profitable: Brad left the teaching profession to pursue more lucrative work.

mode (n.) a way or style of functioning or performing: Our technical support team was in rescue mode for three days after a virus infected our company's central computer system.

retrench (v.) to cut down, reduce, and economize: The manufacturing firm announced that it planned to retrench in the new year to offset three straight years of declining production.

seniority (n.) priority or status obtained as a result of a person's length of service: When the company moved into the new building, first choice of offices went to the executives and second choice to the employees with seniority.

spread the word (v. phrase) to broadly share news or information: The CEO asked the department heads to spread the word about the salary freeze to all employees.

stiff resistance (n. phrase) a strong, opposing force: Despite stiff resistance from upper management, members of the executive board enforced the policy of profit sharing for all employees with three years or more of service with the company.

swap (v.) to trade or exchange one thing for another: Because Sam had little need of software for graphics and art manipulation, he swapped his Macintosh for a PC.

tout (v. rhymes with out) to describe with great enthusiasm: The salesman touted the newest model washing machine as "state of the art."

track record (n.) history or pattern of previous performance: Without any real track record in his position, it was unreasonable for Greg to expect a promotion.

venture (n.) business enterprise involving great risk, but with potential for great gain: Factors such as fluctuations in the stock market and consumer demand will determine the degree of success of the new venture.

violation (n.) an act that disregards or is in conflict with a legal agreement or right: The Environmental Protection Agency reduces penalties for small businesses that voluntarily report any violations to environmental regulators.

MANAGING RISK

Topics

Decision-making under uncertainty
Knowing what is at stake
Benefits of risk management

Objectives

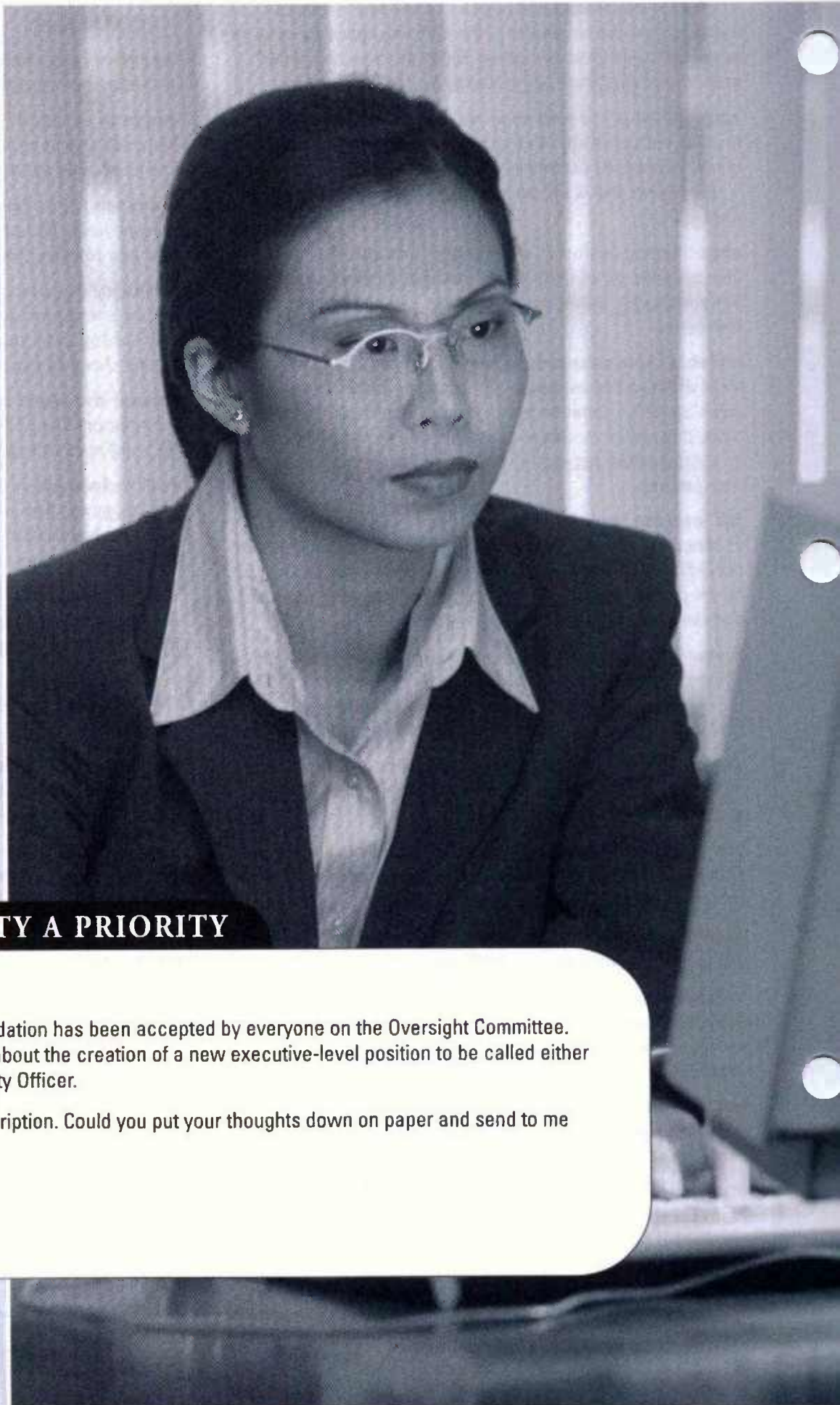
Describing risk in the business world
Explaining what is at risk
Describing risk management and its benefits

Expression

put one's thoughts on paper

"Anything that *can* go wrong *will*."

Murphy's Law



1 MAKING SECURITY A PRIORITY

Grace,

Congratulations. Your recommendation has been accepted by everyone on the Oversight Committee. I will be approaching the Board about the creation of a new executive-level position to be called either Chief Risk Officer or Chief Security Officer.

I'd like your input on the job description. Could you put your thoughts down on paper and send to me by end of day?

Thanks.

Allen

There Is No Business Without Risk

2 Defining Risk

DEFINITION 1: Risk is a concept used to express concern about the probable effects of an uncertain environment on business goals.

DEFINITION 2: Risk is the potential for an event, action, or inaction to affect an organization's ability to achieve one or more of its business objectives.

Sources: *Targeting Business Risk*, David McNamee, www.mc2consulting.com; *Hydro One, Inc.*

3 Decision-making under Uncertainty: A Parable



Once upon a time, a man came to a river. It was a half-kilometer wide, and the current was very strong. The man's guidebook warned of piranha both upstream and downstream, but not where he was. He could cross the river easily by walking 15 kilometers downstream to a bridge. Should he swim across or take the bridge?

This is a classic case of decision-making under uncertainty. The man must weigh his potential rewards with his potential penalties. Yet both rewards and penalties are contingent upon his circumstances at a particular time.

Consider three scenarios. **SCENARIO 1:** The man is on vacation for another two weeks.

SCENARIO 2: He's at the end of his vacation with two hours to catch a plane at the airport just across the river. The next flight is three days later. **SCENARIO 3:** The man has just escaped from a local jail, where he is serving a life sentence. He can hear the pursuing hounds in the distance. Across the river — another country and freedom. There is a good chance that the police are lying in wait for him at the bridge.

The man's decision must be based on his balance of both reward and harm related to the particular time and circumstances. In the first scenario, he will surely choose the bridge. In the second, the bridge is the probable choice. In the third, there is no question that he must swim.

What if this man had a corporate staff to advise him? Legal counsel would point out that crossing to the other country other than by the bridge would constitute illegal entry. Internal Audit would argue that he should wait two days until proper controls can be constructed. Human Resources would be concerned about the potential loss of a key man. The Insurance Manager would report good and bad news. The good news: the man is covered by Workers' Compensation and Group Life Insurance. The bad news: any injury or death will affect the loss-premium ratio, bringing higher premiums to all employees next year. He, too, would advise against swimming.

By focusing only on the downside, none of these "risk managers" would be considering the entire picture. Any decision made under uncertainty must include the likelihood of penalties, but also the potential rewards, as well as the timing and circumstances.

Any risk decision that considers only one side of the equation, be it upside or downside, is incomplete and potentially damaging.

Source: "How do we define risk management?" *Risk Management Reports* June 2001, by H. Felix Kloman, www.riskreports.com

The Stakes Are High

4 What Is at Risk?

One of the goals of risk management is the protection of a company's assets. These assets are typically grouped in this way —

- **FINANCIAL:** cash, credit, and negotiable instruments
- **HUMAN:** knowledge, skills, and commitment of staff
- **PHYSICAL:** land, buildings, and equipment
- **INTANGIBLE:** reputation and brand

Source: *Targeting Business Risk*, David McNamee, www.mc2consulting.com

5 Managing Risk in the 21st Century

Understandably, the term "risk" makes many businesspeople nervous. And well it should. Risks such as fires, fraud, currency fluctuations, legislation, and war are a threat to tangible business assets each and every day. Such assets include facilities, financial holdings, and inventories.

In the 21st century, however, companies need to be just as vigilant for threats to their intangible assets, which include:

- reputation or brand
- business model
- human capital
- intellectual property
- information network

Risk management programs cannot eliminate risk. This is not the goal of such programs. The purpose of risk management is simply to put people in a position to make sound decisions about when and where to place bets and when it's best not to bet at all.

Some risk in business is necessary — and even desirable. After all, there is no reward without risk.

Based on "Managing Risk in the 21st Century," by Thomas Stewart, *Business 2.0*

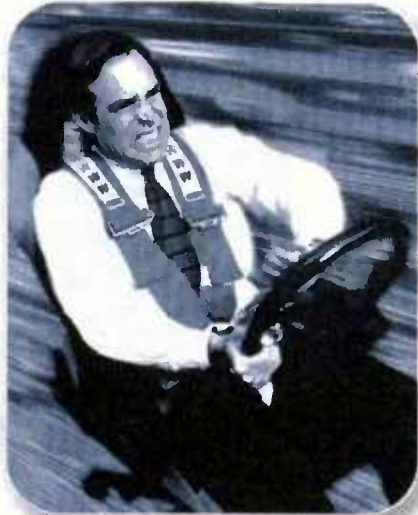
6 Worming Their Way into Our Wallets

In August 2003, the SoBig.F became the fastest-growing e-mail worm ever. Costs for the clean-up are estimated in the billions, though SoBig won't come close to matching 2000's Love Bug. Still, according to Computer Economics in Carlsbad, California, the worldwide impact of cyber attacks has grown steadily, from \$3.3 billion in 1997 to an estimated \$12 billion this year.



Sources: Text — "Crushing Bugs," by Christopher Tkaczyk, *Fortune*, September 2003; Data — Computer Economics

7 Managing Risk



What is Risk Management?

Risk management is a process which supports better decision-making by creating a greater understanding of risks and their impacts. It is as much about identifying opportunities as it is about avoiding losses. By adopting effective risk management techniques companies can improve safety, quality, and business performance.

Who is it for?

Any organization, large or small, public or private, can benefit from the implementation of risk management strategies. Most large organizations and many smaller organizations already have risk management strategies and operations in place.

What are the benefits of Risk Management?

There are many benefits a company reaps from the implementation of risk management procedures. They include:

- more effective strategic planning
- better cost control
- enhancing shareholder value by minimizing losses and maximizing opportunities
- increased knowledge and understanding of company's vulnerabilities
- development of a systematic, well-informed, and thorough method of decision-making
- increased preparedness for external scrutiny
- better utilization of resources



Source: "What is Risk Management?" Standards Australia, www.riskmanagement.com.au

8 Risk Management Techniques

- AVOID** redesign processes to avoid specific risks with the goal of reducing overall risk
- DIVERSIFY** spread the risk among numerous assets or processes to reduce the overall risk of loss or impairment
- CONTROL** design activities to prevent, detect, or contain adverse events and to promote positive outcomes
- SHARE** distribute a portion of the risk through a contract with another party, such as insurance
- TRANSFER** distribute all of the risk through a contract with another party, such as outsourcing
- ACCEPT** allow minor risks to exist to avoid spending more on managing the risks than the potential harm

Source: *Targeting Business Risk*, David McNamee, www.mc2consulting.com

9 Bain on Risk

Berlitz: We're speaking today with Bain & Company consultant and author Chris Zook. Thanks for joining us again.

Zook: Great, thank you.

Berlitz: In your writing and consulting career, your focus has been on helping companies achieve profitable growth. What are the risks associated with growing a business?

Zook: There are three categories of risk that surround this. The first is prematurely abandoning the core business, like Anheuser-Busch did from beer going into salty snacks, or K-Mart did by moving into a range of retail businesses, ranging from Czechoslovakian department stores to sporting goods chains at a time it was just about to encounter a blistering attack by Wal-Mart, one of the most difficult competitors on earth.

Second category of risk is actually not understanding your own core in enough detail and jumping into unrelated businesses based on a false premise or assumption. Examples of this might be what Vivendi did in entertainment, for example, or perhaps what WorldCom did.

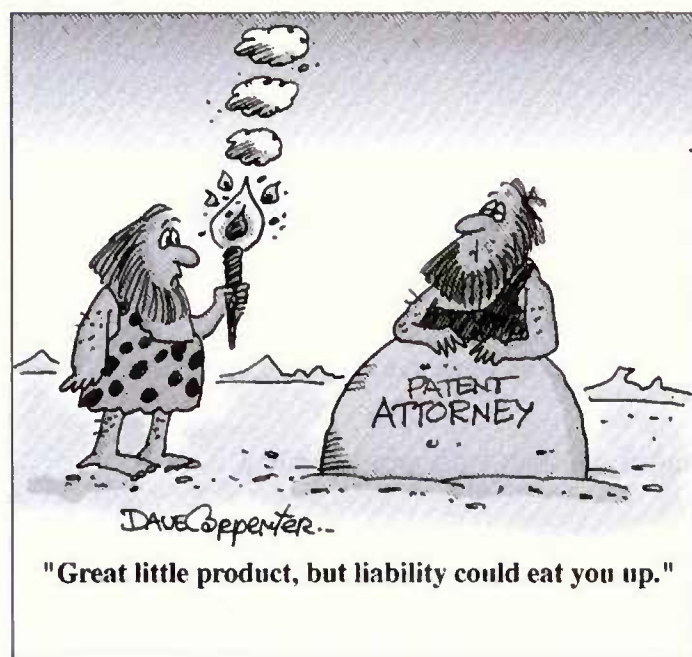
The third risk category is failing to manage the risk of moving into new areas like Mattel did when it purchased the Learning Company for three billion dollars a couple of years ago and ended up having to sell it, two years later, for a price of zero.



Chris Zook

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Chris Zook is author of the now classic Profit From the Core. Zook, a Director of Bain & Company and head of their Global Strategy practice, has been helping corporations devise growth strategies for 20 years. His newest book, Beyond the Core, is the featured title in Harvard Business School Press' winter line-up.



10 Great Idea! Let's Use It.

In February 2003, eleven years after German inventor Harry Gaus discovered that Conair Corp. had been using a safety mechanism he invented to shut off hair dryers that fall into bathtubs, Gaus was awarded \$46.1 million in a patent-infringement lawsuit.

How did Gaus learn of Conair's infringement? He says Conair told him. At a meeting to discuss a potential partnership, a VP for engineering disclosed that the company was already marketing a dryer that "may infringe your patent." Oops.

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Chapter Check

Now you can ...

A Describe business risk



What is risk in the business world?

B Explain what is at risk

1 What Is at Risk?

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- **FINANCIAL:** cash, credit, and negotiable instruments
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- **HUMAN:** knowledge, skills, and commitment of staff

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Source: Targeting Business Risk, David McNamee, www.mc2consulting.com

What assets are at risk when a company does business?

C Describe risk management and its benefits



How would you describe risk management? What benefits can a company reap from implementing sound risk management practices?

The Oracles of Oil

No industry understands risk better than the oil industry. And no one in the oil industry takes a longer view of it than Shell's legendary scenario planners.

Down the hall from Ged Davis's 21st-floor office in Royal Dutch/Shell's London headquarters, there is a clear view of the enormous high-tech Ferris wheel known as the London Eye. Cantilevered out over the Thames River, the Eye is supported by two giant leaning pylons anchored, in turn, by four massive cables of braided steel. It is a spectacular feat of engineering — and yet it looks as if it might topple into the river at any moment.

Sounds a lot like the oil and gas business — a vast and complex structure that appears vulnerable to disaster at many points. Upheaval appears inevitable: OPEC's reign is crumbling, new oil and gas demand is shifting to Asia, and worries about global warming are forcing hard choices on governments and businesses. And since Sept. 11, it has become impossible to ignore the deeply anti-Western psychology that festers above the world's richest oil deposits.

Davis, a soft-spoken, rapier-slim Briton with a master's in engineering from Stanford University and one in economics from the London School of Economics, is the person responsible for helping Shell managers grapple with all this uncertainty. The head of Shell's fabled scenario-planning group, Davis leads a 12-person team in developing "scenarios," or alternative visions of the future based on broad economic and political developments. Rather than making forecasts, which tend to extrapolate the future from the past, scenario planners create hypothetical stories of how the future might turn out. "Scenarios are plausible, pertinent, and consistent alternative stories about the future that aim at changing the policy and strategy agenda," Davis explains. If physical

plant security, insurance management, and IT safeguards are the applied mechanics of risk management, scenario planning is its quantum physics.

Many other companies, including UPS, DaimlerChrysler, and Zurich Financial Services, now use scenario planning, but no one has practiced it longer or in a more sophisticated fashion than Shell. Every year Davis's group devises 5- to 10-year scenarios for at least a dozen countries. Every three years, they construct a pair of grand, global scenarios that trace the implications of long-term social or economic trends.

Shell's scenario movement began with a notable success. In 1972, a scenario called "Energy Crisis" — one of seven developed that year — walked through what would happen if Western oil companies lost control of world supply. When OPEC shut the spigot the next year, Shell was the only major oil company positioned to withstand the shock. The company was also prepared when prices reversed direction a decade later. "When the price collapsed in the mid-1980s," recalls Peter Schwartz, who headed Shell's scenario group during that period, "we spent \$3.5 billion [buying up oil fields at depressed prices] and locked in a 20-year price advantage."

Consultants like Global Business Network, founded by Schwartz after he left Shell, can help companies create scenarios without an in-house department like Shell's. Outsourced or not, scenarios must promote unconventional thinking. "A scenario practitioner has to look outside, almost with the eyes of a child, to see things anew," Davis says. To expand his own group's perspective, Davis has brought jugglers, artists, and

musicians into scenario-planning workshops.

Planners say the best use of the technique is to challenge a company's strategic assumptions by pointing out that completely different outcomes are equally plausible. When scenario planning doesn't work, it's often because companies expect an immediate impact on decision-making. Shell's experience in 1972 notwithstanding, the lag between the creation of a scenario and its strategic payoff is usually years.

Shell's most recent energy scenarios, released in October, show just how wide a range of outcomes planners need to assess. One, called "Dynamics as Usual," considers the implications should energy suppliers evolve gradually toward renewable forms such as solar, wind, and hydro. If this is the future, the planners conclude, oil would remain the dominant source of energy for the bulk of the 21st century. A second scenario, "Spirit of the Coming Age," envisions revolutionary technologies sparking a much faster shift toward renewable forms. In this scenario, oil is overtaken by gases, particularly hydrogen fuel cells, by 2050.

Davis's group is also putting the finishing touches on Shell's latest triennial global scenarios, for release in January. One premise of the scenario, called "People and Connections," is that nation-states are ceding influence to networks that owe allegiance to no particular government. These include not only multinational businesses but also organized crime webs and loosely knit "communities of shared values," like the anti-globalization movement and, unfortunately, al Qaeda. Businesses and governments alike have to recognize these new constituencies, Davis warns, or they'll face consequences.

In summarizing the risks at this moment, Davis draws on a whitewater-rafting analogy that Shell planners have used before. "We are in a global 'rapids' now," he says. "With all the transitions going on — demographic, technological, geopolitical, environmental — we will be truly tested in the years ahead. Looking back, people may label this period 'childhood's end.'" — RICHARD MARTIN

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Key Words

adverse (adj.) opposing one's interests or wishes: *The adverse effects of Mr. Doyle's departure will be felt for months to come in our small department.*

contingent (adj.; often followed by on or upon) dependent for existence or occurrence on some circumstance or event: *The sale of the house was contingent upon the completion of all the repairs that the buyer requested.*

cyber (adj. / prefix) relating to computers or the information age: *Our computer network is extremely vulnerable to cyber attacks because of insufficient firewall protection.*

diversify (v.) to distribute risk among a variety of investments or industries in order to limit losses from the failure of one market or industry: *Because Jennifer diversified her investments, she did not suffer substantial losses when the dot-com companies in her portfolio lost most of their value.*

downside (n.) negative or disadvantageous aspect(s) of a situation: *If John had spent more time contemplating the downside of the investment deal, he would not have been surprised by the losses.*

e-mail worm (n.) malicious programs, sometimes called "viruses," that copy themselves from one computer to another via e-mail systems: *My computer has been infected by an e-mail worm that is now sending copies of itself to everyone in my address book.*

equation (n.) an expression or a proposition of a complex set of variables or factors: *We had not factored the potential for weather delays into the equation; as a result, we missed our deadline by two weeks.*

group life insurance (n.) a master policy, typically issued to an employer for the benefits of employees, which will pay a specified sum to beneficiaries upon the death of the insured individuals: *When Betsy's husband died, she received a significant sum of money from the group life insurance policy he had subscribed to through his employer.*

implementation (n.) the act of putting something into effect: *Part of the implementation plan is to train everyone on the new software before it becomes a required tool of the company.*

infringe (v.) violate rights or property: *It's a great product, but we couldn't possibly sell it; it's so similar to our competitor's product that it would surely infringe on their copyright.*

intangible (adj.) incapable of being perceived by the sense of touch: *We were more concerned about threats to our intangible assets — our reputation and our brand identity — than to anything else.*

intellectual property (n.) intangible assets that consist of knowledge and ideas: *The movie studios are desperately trying to protect their intellectual property against illegal copying and distribution.*

internal audit (n.) accounting or finance personnel that examine and verify financial records of a firm to guarantee accuracy: *Every year, our internal audit department reviews the accounting records of each and every department to verify proper use of funds and accurate reporting.*

legal counsel (n.) advisors on aspects and rules of the law; typically, practicing lawyers and attorneys: *In order to prevent contractual disputes, I always consult with our company's legal counsel before signing any new agreements.*

negotiable instrument (n.) any instrument that can be traded on a financial market: *Stocks and bonds are negotiable instruments.*

parable (n.) a brief fictitious story meant to represent a moral or ethical principle: *The presenter told the group a parable about a man, a camel, and a vast desert, but its relevance to our business was not immediately apparent.*

place a bet (v. phrase) make a wager or take a risk: *If I had to place a bet as to when a final decision would be made, I would put my money on "never." Our department manager is just not a decisive person.*

premium (n.) amount paid monthly or yearly for an insurance policy: *Gary's auto insurance premiums rose significantly after his car accident.*

put one's thoughts on paper (v. phrase) document an idea or concept: *When Mr. Barton asked me to put my thoughts on paper, I had no idea that he was going to present them to the Board.*

reap (v.) to gather; to harvest; to get as a return: *We converted all our computers to the Linux operating system three years ago, and we're still reaping the benefits of that decision.*

scrutiny (n.) a close examination or investigation: *Everything I do passes under the scrutiny of my boss — he's a real micro-manager.*

shut off (v. phrase) to turn or close off: *Before you work on the sink, you'd better shut off the water.*

stake (n.; often plural) something that is wagered in a game, race, or contest: *Although the stakes are high, the potential pay-off is significant, so many investors are willing to take the chance.*

tangible (adj.) capable of being touched: *Your promise means nothing to me. I want a tangible guarantee.*

uncertainty (n.) the condition of not being sure or convinced about something: *The uncertainty of stock prices is a commonly accepted risk for those who invest in the stock market.*

upside (n.) advantageous aspect(s) of a situation: *While many people fear job losses from the reorganization of the company, the upside is that some employees will transition to jobs that better fit their skills and interests.*

volatility (n.) a quality of sudden changeability or transience: *Due to the great volatility in the stock market in recent years, I have shifted many of my assets to low-risk instruments.*

vulnerability (n.) capability or quality of being easily wounded or hurt: *The company's vulnerability to a hostile take-over was of great concern to its board of directors.*

worker's compensation (n.) insurance benefits to be paid to employees who are injured while doing company business: *Because Rita fell and broke her leg at the office, the company's worker's compensation policy is covering her hospital bills, as well as paying her salary until she can return to work.*

MAKING CHANGE WORK

Topics

Envisioning the future
Factors that drive change
Transforming organizations
The human element
Change agents

Objectives

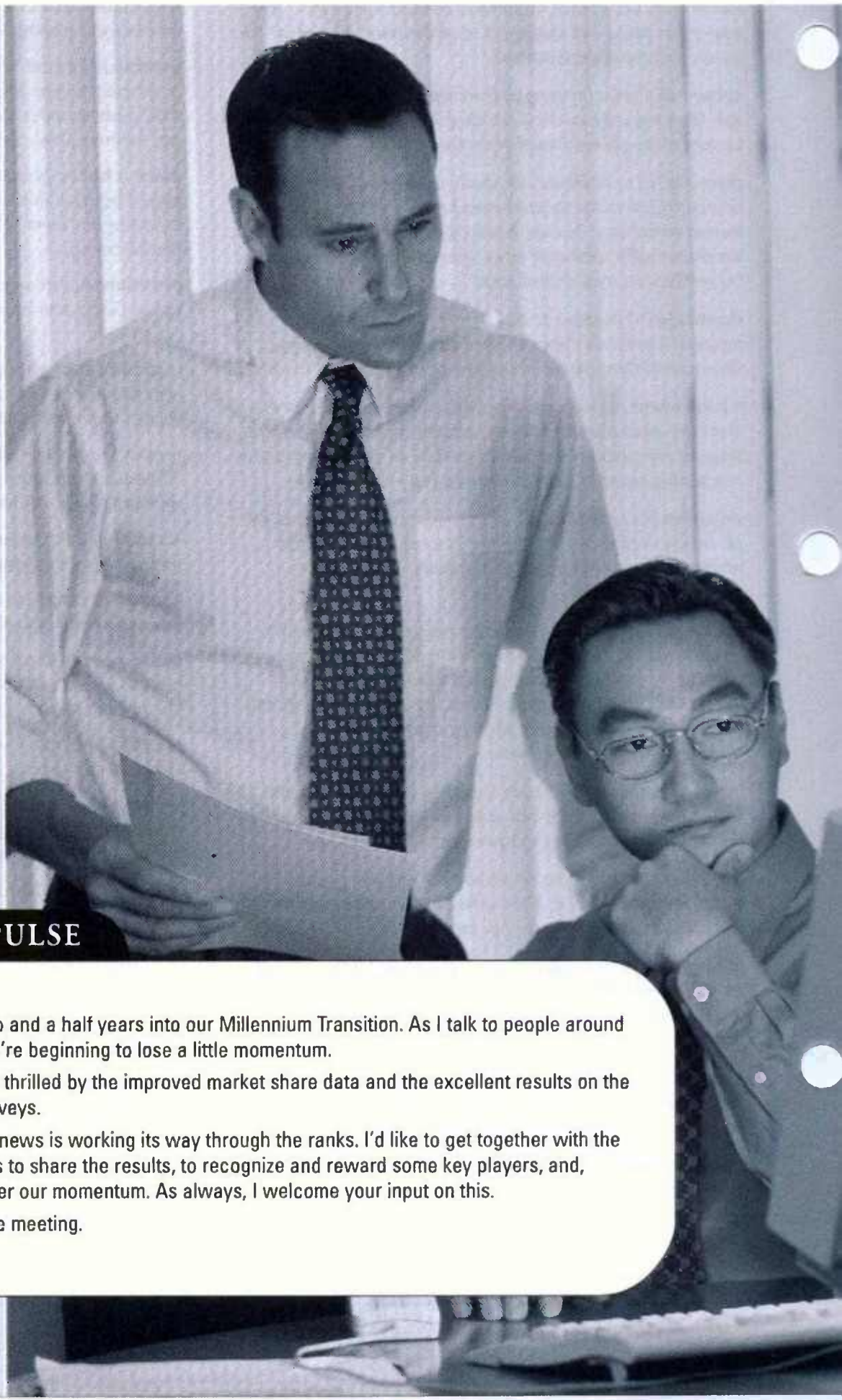
Explaining the concept of “vision”
Discussing the factors that drive change
Enumerating the steps in the change process
Describing the ideal change agent

Expressions

*Don't get me wrong.
work its way through the ranks;
have their work cut out for them;
win over; command and control;
the system is stacked against you;
pick your battles*

“It is not the strongest of the species that survives, nor the most intelligent; it is the one that is most adaptable to change.”

Charles Darwin



I CHECKING THE PULSE

Robin and Mike,

It's hard to believe, but we're two and a half years into our Millennium Transition. As I talk to people around the complex, I'm sensing that we're beginning to lose a little momentum.

Don't get me wrong. Everybody's thrilled by the improved market share data and the excellent results on the recent customer satisfaction surveys.

We need to make sure the good news is working its way through the ranks. I'd like to get together with the two of you to discuss some ways to share the results, to recognize and reward some key players, and, hopefully, in the process to bolster our momentum. As always, I welcome your input on this.

Gina will be in touch to set up the meeting.

Jack

Change: The Big Picture

2 Envisioning the Future

Rome was not built in a day. Corporate transformations are not much different. Companies seeking more than incremental improvements in performance have their work cut out for them. But without a vision of what they aspire to become, any change effort they undertake has little chance of success.



Whatever the need for change, a company must first identify its goals. These goals will form the vision that guides and inspires the entire organization during the transformation. Once its goals are identified, the company must articulate vivid descriptions of what it will mean to achieve them.

True change takes years, but it occurs one day at a time, one employee at a time. Each individual within the organization must think, feel, or do something different for meaningful change to take place. In large companies, change depends on thousands of employees understanding the change strategies well enough to translate them into appropriate actions. And each employee

must be won over one by one. Through the vivid descriptions of the goals, employees are able to internalize the vision, making what begins as an abstract idea their shared future.

A vision should be more than the typical financial targets one finds in a 5-year plan. It should clarify the direction in which an organization needs to grow. Without a vision, a transformation effort can easily dissolve into a series of confusing and incompatible projects that can take the organization in the wrong direction or nowhere at all. The vision provides guidance about what to preserve and what to change.

Not all companies are lucky enough to have a prophet or visionary on their payroll, so where does the vision for change come from? When an organization confronts the factors that are most threatening to its existence, it is ready to abandon what it is and realize what it might be.

Source: Harvard Business Review on Change: "Leading Change: Why Transformation Efforts Fail," by J. Kotter; "Building Your Company's Vision," by J. Collins and J. Porras; "Managing Change: The Art of Balancing," by J. D. Duck; "The Reinvention Roller Coaster: Risking the Present for a Powerful Future," by T. Goss, R. Pascale, and A. Athos

3 Factors Driving Change

EXTERNAL FACTORS

Changes in ...

- technology
- market position
- financial performance
- consumer needs / demands
- political or legislative landscape

INTERNAL FACTORS

- departure of key employees
- appointment of senior executives
- new processes or production techniques

WHAT'S IN A NAME?

cultural change
reengineering
reinvention
restructuring
right sizing
transformation
turnaround

Making Change a Reality

4 Eight Steps to Transforming Your Organization

1 ESTABLISH A SENSE OF URGENCY

- examine market and competitive realities
- identify and discuss potential crises and major opportunities

2 FORM A POWERFUL GUIDING COALITION

- assemble a group with the capabilities to lead the change effort
- encourage the group to work together as a team

3 CREATE A VISION

- create a vision to help direct the change effort
- develop strategies to achieve the vision

4 COMMUNICATE THE VISION

- use every vehicle possible to communicate the new vision and strategies
- teach new behaviors by the example of the guiding coalition

5 EMPOWER OTHERS TO ACT ON THE VISION

- get rid of obstacles to change
- change systems or structures that seriously undermine the vision
- encourage risk-taking and non-traditional ideas, activities, and actions

6 PLAN FOR AND CREATE SHORT-TERM WINS

- plan for visible performance improvements
- make those improvements a reality
- recognize and reward employees involved in the improvements

7 CONSOLIDATE IMPROVEMENTS AND PRODUCE STILL MORE CHANGE

- use increased credibility to change systems, structures, and policies that don't fit the vision
- hire, promote, and develop employees who can implement the vision
- reinvigorate the process with new projects, themes, and change agents

8 INSTITUTIONALIZE NEW APPROACHES

- articulate the connections between the new behaviors and corporate success
- develop the means to ensure leadership development and succession

Source: "Leading Change: Why Transformation Efforts Fail," by John C. Kotter, Harvard Business Review on Change

5 Machine or Organism?

Why is it so difficult for companies to succeed in their efforts to produce lasting change? Peter Senge, author, lecturer, and Director of the Center for Organizational Learning at MIT's Sloan School of Management, has argued that change becomes difficult when business leaders expect their companies and employees to behave like machines. According to Senge, change needs to be cultivated, not driven. Organizations need gardeners, not mechanics.

Because high-level executives are typically separated from the day-to-day business of the organization, they tend to look at the business from the perspective of numbers, financial statements, and prospective deals. Their number-one variable is the company stock price. This outlook distances them from the living, human aspects of the enterprise and ignores the fact that so much of business is about people and relationships. Senge points out that changing relationships is a much more complicated process than changing a flat tire on a car or replacing a light bulb. Companies, he notes, get into trouble when they try to "fix" people.

When business leaders look at their company as a living thing, they are no longer simply changing — or fixing — the business. They are growing something new.

Source: "Learning for a Change," by Alan M. Webber, Fast Company, 1999

6 The Company that Does Not Evolve Risks Extinction

With his theory of natural selection, Charles Darwin described the perpetual struggle for the survival of the fittest in the animal kingdom. Perhaps not so surprisingly, the theory is equally suited to describing the battle for survival taking place in the business world every day. Companies must constantly adapt to changing economic and political environments or risk becoming irrelevant. Business writer and editor Paul Judge has summed up the parallels in evolutionary theory and the corporate struggle against extinction in this way:

Successful adapters see the world with fresh eyes. When the environment shifts around them, successful adapters are among the first to respond to changes in the complex web of relations that binds all species together. Successful adapters are quick to differentiate themselves from their closest rivals.

Speed matters. Adapters are often quicker to locate and exploit new sources of nutrition. They find ways to coexist where possible, to outrun, outmaneuver, or outfight competitors where necessary.

Instinct plays a crucial role. Successful adapters seem to have a superior capacity to anticipate the dangers and opportunities in their environment and to act decisively.

Adaptation is constant. Conditions are ever-changing in large and small ways, demanding and favoring ongoing adaptations.

Source: "How Will Your Company Adapt?" by Paul Judge, Fast Company, 2001

7 Wanted: Transformation Officer

Large corporation seeks experienced change agent to guide ongoing organizational reinvention. The successful candidate will:

- be capable of making tough decisions
- be disciplined about performance results
- know how to focus on results, not methods
- hunger for information from the marketplace
- want the facts and won't necessarily get them through the organization
- be more flexible and more people-oriented than ordinary managers
- know how to get people energized and aligned with company strategy
- be able to shift easily from a team approach to "command and control"
- know how to get the job done alone if necessary
- know how to get more out of people
- have unique survival skills

Those motivated more by recognition than results need not apply.

Source: "Wanted: Company Change Agents," by Stratford Sherman, Fortune, 1995



8 The Change Agent's Handbook: 8 Rules for Getting the Job Done

1. **Start with the things already under your control.** There's plenty there that could use a change.
2. **Don't ask permission.** Be bold and take some risks.
3. **Never forget that the system is stacked against you.** Pick your battles accordingly.
4. **Establish a model of change.** What is your vision or point of view?
5. **Be prepared to deal with the politics of change.** You can't change anything if you can't coexist with your colleagues.
6. **Know your mandate.** Push people. Improve performance. Make your numbers.
7. **Walk the talk.** Actions speak louder than words.
8. **Make change the routine.** Constantly push yourself to improve — or risk stagnation.

Source: "Bob Knowling's Change Manual," by Noel Tichy, Fast Company, 1997

9 Managing Change

Berlitz: Joining us today by telephone to discuss corporate leadership during periods of change is consultant and author Maya Hu-Chan.

Maya Hu-Chan is co-author of *Global Leadership: The Next Generation*. She is an executive coach and a cross-cultural consultant, who specializes in working with multinational corporations and executives on leadership issues. Maya Hu-Chan, thanks for joining us today.



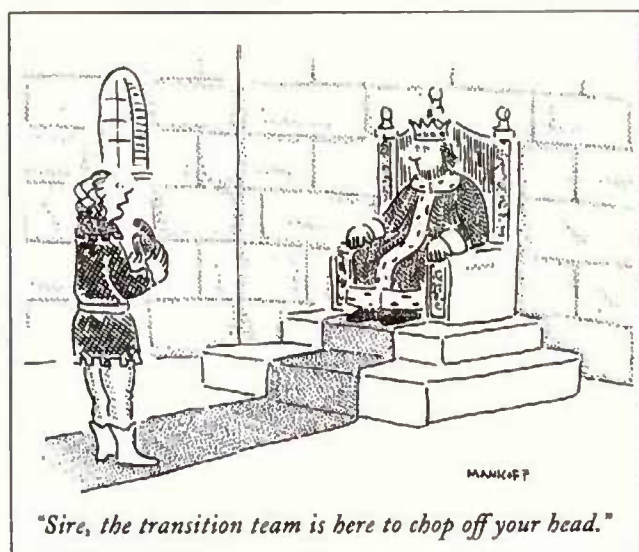
Maya Hu-Chan

Hu-Chan: Thank you for having me.

Berlitz: Maya Hu-Chan, you've worked with countless business leaders who have brought about change in their organizations. Why is change so difficult and what must a leader do to introduce real change?

Hu-Chan: Well it's not an easy task to introduce change and manage change in any organization, and people tend to resist change, especially when they don't know what's going to happen to them. And they're afraid that they will lose something important and valuable as a result of the change.

So what must a leader do to successfully manage change? First of all you must be a role model. Embrace and support the change process, and make a special effort to increase communication whenever changes affect your work group. And leaders also need to share as much information as they can with people during the process of organizational transition. Identify the opportunities for change, and tell people what you think the change will mean for them. And also genuinely listen to your employees' concerns and comments. Encourage them to ask questions. Involve other people in the process to minimize the resistance and make the transition more smoothly.



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10 10 Reasons Why We Cannot Change

1. It has never been done before.
2. Why change? We're doing fine.
3. It won't work in our company.
4. It needs further investigation.
5. Our competitors don't do it.
6. We don't have time for it.
7. Our customers won't want it.
8. We're not ready for it.
9. We would lose money on it.
10. It's impossible.

Based on "50 Reasons Why We Cannot Change,"
Fast Company, November 1993

Chapter Check

Now you can ...

A Explain the concept of "vision"



What should a vision of change communicate to the people at a company?

B Discuss the factors that drive change

3 Factors Driving Change EXTERNAL FACTORS

Changes in ...

- technology
- market position
- financial performance
- consumer needs / demands
- political or legislative landscape

INTERNAL FACTORS

- departure of key employees
- appointment of senior executives
- new processes or production techniques

What are the factors that make change necessary?

C Enumerate the steps in the change process

Eight Steps to Transforming Your Organization

1 ESTABLISH A SENSE OF URGENCY

- examine market and competitive realities
- identify and discuss potential crises and major opportunities

2 FORM A POWERFUL GUIDING COALITION

- assemble a group with the capabilities to lead the change effort

What are the steps in the change process?

D Describe the ideal change agent



1. Start with the things already under your control.
2. Don't ask permission.
3. Never forget that the system is stacked against you.
4. Establish a model of change.
5. Be prepared to deal with the politics of change.
6. Know your mandate.
7. Walk the talk.
8. Make change the routine.

What are the attributes of a good change agent?

Change Agent — John Dooner

John Dooner insists that he never feared for his or his company's future. But over several months in 1992, Dooner, then president and chief operating officer of McCann-Erickson Advertising Worldwide, watched as the Coca-Cola Co. handed over more and more of its business to Creative Artists Agency (CAA), the Hollywood talent factory that had plans to extend its reach to Madison Avenue. By the end of the year, McCann found itself left with only media buying and a few creative scraps from what had, since the 1950s, been its most important client.

Instead of running for cover, Dooner, who had staked his career on the Coke business, vowed that he would win back the account. He also vowed that he would reclaim the account from a position of strength, not of weakness. "Fear is a strategy for the number-two or number-three player," Dooner says. "You only get to be the best if you're the one with the clearest vision."

And here's what Dooner saw: The way to persuade a customer, a client, or a partner to give you another look is to take a hard look at yourself. Instead of just pounding on Coke's door and asking to be let back in, Dooner set out to change everything about his agency. He tore apart and then rebuilt McCann-Erickson into a broad-based shop with blue-chip credentials and a solid creative reputation. He bought 114 agencies that could offer everything from database research to the most cutting-edge video.

The payoff finally came in November 2000, when Coca-Cola announced that it was coming home to McCann. But Coke didn't just hand McCann the plum assignment of creating Coca-Cola Classic ads for its biggest market, North America. Instead, the company announced a groundbreaking "marketing partner" agreement with the Interpublic Group of Cos. (McCann's parent) estimated to be worth some \$2 billion. And who is the man now running Interpublic? Why, that would be John Dooner, who became chairman and CEO of the holding company on January 1, 2001.

It's hard to overestimate the gravity of the turnaround. Coca-Cola "wasn't just an account; it was part of him," says Nina DiSesa, creative director for McCann's flagship New York agency, when asked about Dooner's stake in the Coke business. "When Coke walked away, they walked away from John. But it's also John they gave the account back to."

Dooner's Coke victory may offer some lessons for dealing with the rapid deterioration of the advertising economy. It is certainly a case study of leadership in a difficult situation — a demonstration of how tenacity, planning, and clearheaded thinking can triumph over even the most difficult strategic challenges.

Dooner is indeed methodical when it comes to the business of crafting strategy. He uses a five-step philosophy that he's been perfecting over his 30-year career. "I start out by asking what the dream is. What do I want, or what would my clients

want?" Dooner explains. "Then I talk about it. Then I write it down — that's a big part of the process. Then I imagine that the strategy or the situation has already happened. Then I put the strategy into action with the belief that I will never be denied that dream."

Dooner's challenge was to reinvent McCann as the agency that Coke would want to work with in the future. If Dooner had followed Madison Avenue's traditional approach to wooing back a client, he would have hired a few young hotshots to think up some new tag lines or create big-splash storyboards.

Instead, Dooner sat down to ask big questions. What would Coke's ideal agency look like? How would it be organized? What could it offer to a brand that stretches around the world, and that must also connect with consumers on an emotional level? Fortunately for Dooner, by 1995 he had been elevated to a position — chairman and CEO of McCann-Erickson Worldwide — that gave him the clout to create that agency.

By the end of the decade, Coke's advertising had too many tag lines and too many agencies trying to create too many treatments for a single brand. So Dooner finally began making overtures to Coke. Dooner's pitch? Interpublic was big enough to handle Coke's global needs, but had enough small agencies and idea people to keep its advertising fresh. When Coke made its announcement in November, the press release stated simply that the decision was "about ensuring that the basic messages about the world's premier brand have a foundation of consistency." Dooner, DiSesa, and the rest of the team aren't celebrating. DiSesa says that there wasn't even a party after the November announcement: "We've got to create ads that Coke cherishes and the bottlers like. There's no cheering yet. Getting the account was the first step. Now we have to produce great work." — BY FARA WARNER

*Originally published in FAST COMPANY, November 2001
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Key Words

align (v.) to adjust or arrange to be parallel: *If you don't align your interests with ours, you will not be able to remain competitive for long.*

articulate (v.) to put into words: *Sheila tried to tell her boss about the difficulties she was having in her personal life, but she found it extremely difficult to articulate them.*

change agent (n.) someone or something that helps bring about change or different ways of doing things at an organization: *April is a natural change agent because she always seeks to do things better, more efficiently, with the latest technology, and knows how to think "outside the box."*

coalition (n.) a group of people united for a common purpose: *Our city government is forming a coalition of interested citizens and scientific experts to investigate and eventually, we hope, solve some of our persistent environmental problems.*

command and control (n. phrase) the part of an organization or group where the power resides and where the important decisions are made: *Roy has a very collaborative working relationship with his staff, but when necessary he quickly shifts to command and control and takes charge of the situation.*

cultivate (v.) to promote the healthy growth of something through hard work and attention (often used in the context of plants or crops): *Henry cultivated many personal relationships during his first few years out of university. These relationships later opened up several interesting doors for him.*

don't get me wrong (expression) do not misunderstand me; often used to soften a comment that may sound very critical: *Don't get me wrong, I like your idea, but I don't think we can accomplish it within our budget.*

envision (v.) conceive, imagine, or create a mental image of something: *The CEO challenged us to envision a new future for the company — he encouraged us to "dream big."*

have their work cut out for them (v. phrase) to face considerable challenges in achieving a goal or completing a project: *The team is made up of highly-skilled, motivated employees, but they will, nevertheless, have their work cut out for them to complete the project on time.*

institutionalize (v.) to incorporate formally into an organization's internal system: *Rather than simply set policies, the new CEO has proposed procedures and organizational systems to fully institutionalize the changes she wants implemented.*

irrelevant (adj.) having no connection to a particular issue: *Steve's comments were irrelevant to the discussion, so we simply ignored his e-mail.*

mandate (n.) an authoritative command or order: *The mandate to limit all travel until the end of the year was issued by our president last week. Many employees rushed to cancel previously booked trips.*

organism (n.) any living being: *Whether we like it or not, our company behaves and performs much more like a living, breathing organism than a machine staffed by robots.*

outmaneuver (v.) to demonstrate greater skill and/or strategy in a contest, game, or battle: *The small independent film producer outmaneuvered the big Hollywood studios and secured the movie rights to the story of John Wayne's life.*

perpetual (adj.) occurring regularly or continuing forever: *Marianne seems to be in a perpetual state of stress, and never looks relaxed.*

pick your battles (v. phrase) strategically choose the occasions when you argue with a particular person or group: *Pick your battles wisely, or you will spend unnecessary energy and time on issues that are not important or cannot be changed.*

stagnation (n.; from **stagnate** (v.)) a state of having ceased to develop, grow, or progress: *There is no turn-over at our company, so there are no new ideas. The same twenty people have been making the decisions for fifteen years. We are in a period of total stagnation.*

suited (to) (adj.) appropriate; apt; fitting: *Bill's role at the company is well suited to his personality. He enjoys working under pressure, he likes to work independently, and he has little patience for anyone who can't keep up with him.*

the system is stacked against someone (expression) when the conditions, opinions, and standards in an organization are disadvantageous for a person: *I have tried many times to change this situation, but the system is stacked against me, and I don't think my voice will ever be heard.*

vision (n.) the act or power to anticipate what will or may happen: *Mr. Perkins had the vision to see that in ten years his company's products would be obsolete. For this reason, he began a company-wide modernization effort this year.*

visionary (n.) a person with a talent for foreseeing future developments: *We chose Melissa Turner because she has the necessary technical skills and is a visionary in the field of technology. We're counting on her to anticipate our future needs.*

vivid (adj.) bright, intense, and full of life: *My friend the adventure traveler was only too happy to share the story of his encounter with the crocodile in vivid detail.*

win (over) (v.) to persuade and ultimately to gain a person's support and enthusiasm: *We had been telling Bruce how much he would love snow-boarding for years, but he was just afraid to give it a try. Last year, our entire group of friends went on a snow-boarding trip — even Bruce. He liked it a lot. I think we've finally won him over.*

work its way through the ranks (v. phrase) moving through all levels of an organization: *News of the CFO's resignation worked its way through the ranks in less than an hour, well before the official announcement to all employees was made.*

LEADERSHIP

Topics

The attributes of a leader

Managers vs. leaders

Principles of leadership

Objectives

Describing qualities commonly associated with leaders

Explaining the difference between managing and leading

Talking about what good leaders do

Expressions

only a matter of time; at the helm; find one's way; lay the blame; phone it in; show up; turn them loose

"The successful leader will have, not the loudest voice, but the readiest ear."

Warren Bennis,
author and professor



I OFFERING CONGRATULATIONS TO A NEW LEADER

Sharon,

Congratulations on the exciting appointment! As I kept telling you, it was only a matter of time until someone figured out that you should be at the helm.

In your e-mail, you ask me what I think you need to know about leadership. I think you know it all, my friend. But I hope you won't mind if I tell you what my father told me when I took over at Bertram twenty-five years ago. He said —

"Make commitments and honor them. Don't treat the doorman any differently than the Chairman of the Board. And don't smoke too many cigars — they stink up the place."

I wish you every success as Chief Executive Officer of CompWorks, Sharon.

Warmest regards,

Tony

Understanding Leadership

2 The Verb to lead

lead (v.) – to go before or with to show the way; to conduct by holding and guiding; to guide in direction, course, action, or opinion

Source: Random House Unabridged Dictionary, Second Edition

3 What Makes a Leader?

Children of every culture grow up hearing tales of heroic leaders who take incredible risks to save villages, princesses, lonely children or, perhaps, all humanity from monsters, witches, and assorted evil forces. We are accustomed to our heroes being larger-than-life.



Do we not expect nearly as much of our business and political leaders? If we are to place our trust in them, do we not expect them to have many of the same attributes that our childhood heroes and heroines had? Qualities such as goodness, strength, compassion, outrage against injustice (or what is wrong / not working in the company), and honesty. In fact, these are exactly the traits we expect of our leaders, and we expect more.

We expect our leaders to listen to us, to understand us, and to help us find our way in our work (and sometimes in our lives). Many of the qualities we demand of our leaders are “people skills” because, in fact, leaders are in the business of influencing behavior, of aligning people toward common goals, and of empowering them to take whatever actions are needed to reach these goals.

Leaders should be open-minded, enthusiastic, and passionate. One of the chief missions of a leader is to convey this passion to others in the organization.

Leaders must have a diversity of experience so that there is learning to be called upon when crises occur. Leaders must always be learning, always trying to improve. In this way (and in so many others), leaders are role models to employees. Leaders must be superior communicators, for they need to interact with people at all levels of the organization, as well as represent the organization publicly.

The leadership quality that inevitably shows up on every list as absolutely essential is *integrity*. What's right for the company may be wrong ethically. What should employees do when faced with such dilemmas? Invariably, they look to the leader to serve as the moral compass. And it is in these decisions that leaders affirm the values on which their organizations place the highest importance, and on which, in turn, employees will also begin to place importance.

4 So What Is a Manager Then?

Managers may have the qualities of a leader, but the role of the manager is different from that of the leader. Managers —

- are problem-solvers
- are persistent, diligent, analytical
- are concerned with how things get done
- are action-oriented and dislike reflective activities
- adopt impersonal attitudes toward goals
- seek order and control
- will fix problems immediately, often without considering their significance

The Rules of the Game

5 Principles of Leadership

- 1 **KNOW YOURSELF AND SEEK SELF-IMPROVEMENT**
- 2 **BE TECHNICALLY PROFICIENT**
 - know your job; know as much as possible about your employees' jobs
- 3 **SEEK RESPONSIBILITY & TAKE RESPONSIBILITY FOR YOUR ACTIONS**
 - look for ways to guide your organization to new heights
 - when things go wrong, look for solutions, not places to lay the blame
- 4 **MAKE SOUND AND TIMELY DECISIONS**
- 5 **SET THE EXAMPLE**
 - whether you like it or not, you are a role model
- 6 **KNOW YOUR PEOPLE; LOOK OUT FOR THEIR WELL-BEING**
 - if you don't care about them, they will never care — period
- 7 **KEEP YOUR PEOPLE INFORMED**
 - know when, what, and how to communicate at all levels of the organization
- 8 **DEVELOP A SENSE OF RESPONSIBILITY IN YOUR PEOPLE**
- 9 **ENSURE THAT TASKS ARE UNDERSTOOD, SUPERVISED, AND ACCOMPLISHED**
- 10 **TRAIN YOUR PEOPLE AS A TEAM**
- 11 **USE THE FULL CAPABILITIES OF YOUR ORGANIZATION**

Source: *Big Dog's Leadership Page*, by Don Clark, www.nwlink.com

6 Leadership DOs and DON'Ts

DON'T

- let the same mistake happen twice
- feel the need to be the best performer
- become complacent
- be self-conscious (everyone is watching)
- phone it in
- be afraid to show your passion
- create followers

DO

- take the blame when something goes wrong
- orchestrate the work of others and enjoy watching
- be ready to adapt to the constant changes in business
- be conscious of your behavior and how it affects others
- show up; your actions reverberate throughout the company
- have energy; create energy; spread energy
- create more leaders

Adapted from "Rule #3: Leadership is Confusing as Hell" by Tom Peters, Fast Company, 2001

7 8 Rules for Leaders

1. **Get up, stand up** — You can't do your job sitting behind a desk all day.
2. **Laugh at yourself** — Never take yourself too seriously.
3. **Empower your people** — Explain the rules; then turn them loose.
4. **Allow yourself to dream** — Thinking about the future drives us to attain.
5. **Use every teachable moment** — Don't miss opportunities to give constructive feedback.
6. **Groom your people for success** — Build on strengths; manage around weaknesses.
7. **Prevent erosion of human assets** — Make them feel about the work as you do.
8. **Be generous with what you know** — Knowledge is the foundation of all success.

Based on "25 Rules for Leaders," Fast Company, 2002

8 The 9 Faces of Leadership

According to Federal Express, its best leaders share nine personal attributes — which the company defines with remarkable specificity. FedEx also has a system for rating aspiring leaders on whether they possess these attributes.

Charisma

Instills faith, respect, and trust. Has a special gift of seeing what others need to consider. Conveys a strong sense of mission.

Individual consideration

Coaches, advises, and teaches people who need it. Actively listens and gives indications of listening. Gives newcomers a lot of help.

Intellectual stimulation

Gets others to use reasoning and evidence, rather than unsupported opinion. Enables others to think about old problems in new ways and challenges others to reconsider ideas that they had never questioned.

Courage

Will stand up for ideas even if they are unpopular. Does not give in to pressure or to others' opinions in order to avoid confrontation. Will do what's right for the company and for employees even if it causes personal hardship.

Dependability

Follows through and keeps commitments. Takes responsibility for actions and accepts responsibility for mistakes. Works well independently.

Flexibility

Functions effectively in changing environments. Capable of handling more than one problem at a time. Changes course when the situation warrants it.

Integrity

Does what is morally and ethically right. Does not abuse management privileges. Is a consistent role model.

Judgment

Makes sound and objective decisions through logic, analysis, and comparison. Puts facts together rationally and realistically. Uses past experience and information to bring perspective to present decisions.

Respect for others

Honors and does not belittle the opinions or work of other people, regardless of their status or position.

9 Global Leadership

Berlitz: We're speaking today with consultant and author Maya Hu-Chan. Thank you for joining us again.

Hu-Chan: Thank you. It's good to be here.

Berlitz: Maya Hu-Chan, in your book *Global Leadership: The Next Generation* you report your findings from interviews with 200 high-potential, mid-level managers from over 120 multinational corporations. In exploring the views of these individuals, what did you learn about the importance of global leadership in the business world today?

Hu-Chan: Well, there are a couple different themes that came out of the interview and the research to make global leadership of interest today. First of all is the changing business environment. Now in the past, the debate used to be, can you be a successful leader in one function and move to another function? And then the question became can you be a successful leader in one industry and move to another industry? Today, the question is can you be a successful leader in one country, and fly to another country, and be successful in that country?

Secondly, in order to stay competitive, companies must develop strong global leaders. However, most multi-national companies are lacking strong, effective global leaders and the lack of global leaders will be a barrier to global growth. And that's why global leadership development has become such a strong interest today for global companies.



Maya Hu-Chan

Maya Hu-Chan is co-author of Global Leadership: The Next Generation. She is an executive coach and a cross-cultural consultant, who specializes in working with multinational corporations and executives on leadership issues.



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10 Honesty Is the Best Policy

The board of Silicon Valley software firm HPL Technologies fired its CEO, Y. David Lepejian, in July 2002, after it discovered that he was responsible for faking sales figures. The company learned that an impressive \$11 million of the \$13.7 million in revenues reported for the quarter ending in March 2002 was entirely fictitious. HPL stock tumbled an even-more-impressive 72 percent on the day the fraud was announced.

Excerpted with permission from "The 101 Dumbest Moments in Business, 2003 Edition," Business 2.0, April 2003

Chapter Check

Now you can ...

A Describe qualities commonly associated with leaders



What qualities do you expect to find in a leader?

B Explain the difference between managing and leading

So What Is a Manager Then?

Managers may have the qualities of a leader, but the role of the manager is different from that of the leader. Managers —

- are problem-solvers
- are persistent, diligent, analytical
- are concerned with how things get done
- are action-oriented and dislike reflective activities
- adopt impersonal attitudes toward goals
- seek order and control
- will fix problems immediately, often without considering their significance

How is a manager's job different from that of a leader's?

C Talk about what good leaders do

Charisma

Instills faith, respect, and trust. Has a special gift of seeing what others need to consider. Conveys a strong sense of mission.

Individual consideration

Coaches, advises, and teaches people who need it. Actively listens and gives indications of listening. Gives newcomers a lot of help.

What are things that good leaders do?

Six Principles for Leading During Uncertain Times

Even the best executives can feel like they're daring the impossible these days. Here are effective leadership techniques to consider.

French philosopher Paul Valéry could have been describing the year 2002 when he said, "The trouble with our times is that the future is not what it used to be." At a time when we can be certain only of continuous economic upheaval, geopolitical turmoil, and technological change, effective leaders are those who manage uncertainty effectively. No single trait or action is responsible for a leader's success. Different styles are appropriate for different situations. Nevertheless, apart from matters of personal style, most great business leaders follow a consistent set of principles:

1. Live with integrity and lead by example.

Integrity is the internal sense of right and wrong that guides everything a successful person does. Living with integrity and leading by example build the kind of trust that is critical for high-performance organizations.

2. Develop a winning strategy or big idea.

In an age of competitive intensity, a leader must develop a winning strategy based on a company's competitive advantages and customer needs. Not only must leaders come up with a big idea, but it also has to be the right big idea. Many companies have come up with bold strategies that are wrong or for which the timing is off. The key is to build on the core things that the organization truly does best — and bridge this to what matters most to customers (as defined by what they will pay for).

3. Build a great management team.

As Michael Dell told me, "One person cannot do anything alone." The best business leaders nurture highly successful management teams built around complementary skills and shared values. Nowhere is the need to create a great management team more crucial than in startups where entrepreneurs are attempting to grow a fledgling company into a successful, sustainable corporation.

4. Inspire employees to achieve greatness.

Employees today are looking for deeper meaning from work. Successful business leaders know how to tap into employees' deepest motivations and desires by emphasizing the higher purpose of their organization. On a day-to-day level, great leaders also empower their workers by being supportive and getting out of their way as much as possible.

5. Organize for flexibility and responsiveness.

In an interview I had with former GE chief Jack Welch, he spoke of "the power of informal." With information technology facilitating instantaneous global communications, today's successful business leaders know how to break down slow, overly formalized hierarchies and decision-making processes. The important thing is to have the right people solving problems — no matter where they are located, geographically or hierarchically, in the organization.

6. Implement consistent management systems.

To be most effective, a company's values and strategies should be reflected across all company management practices. Take a good look around your organization, and make sure your performance-measurement techniques, compensation practices, and information system protocols are in line with your leadership principles.

The bottom line for effective leadership is this: When leaders follow a set of clear, enduring principles, traditional measures of corporate performance tend to improve as a natural result. And that, in turn, provides a clear road map for finding success in uncertain and volatile times.

Excerpted from Zoom: How 12 Exceptional Companies Are Navigating the Road to the Next Economy, by James M. Citrin, copyright ©2002 by Easaress Holding Ltd. Used by permission of Doubleday, a division of Random House, Inc.

Key Words

at the helm (expression) to be in charge or command: Walter Redmond was named president and CEO of the company in 1974, and he's been at the helm ever since.

attribute (n.) a characteristic or quality associated with a person, group, or place: Some people believe that the attributes of successful CEOs are not all that different from those of accomplished military leaders.

belittle (v.) to make remarks or comments that diminish something or suggest that something is unimportant: After working for four days straight on the project and feeling he had finally accomplished something, Daniel's boss belittled his efforts by saying that he could have done as much in an afternoon.

charisma (n.) a personal quality that gives an individual influence or authority over large numbers of people: Bill's natural charisma was apparent in the way that we turned to him for key decisions without anyone ever suggesting that he was in charge.

complacent (adj.) pleased or satisfied with one's situation, achievements, etc.: Every year, during his annual address to the employees, our president challenges us not to become complacent about being number one in our industry. "Only by staying hungry," he always says, "can we stay number 1."

dilemma (n.) situation requiring a choice between equally undesirable alternatives: The vice president of human resources faced an unpleasant dilemma: to force a loyal employee of 25 years with the company into retirement or demote him to a junior position.

empower (v.) to give authority or power to someone: Doug assured his supervisor that by providing him with additional staff for the duration of the project she had empowered him to get the job done.

ethical (adj.) being in accordance with the rules or standards for honest, morally correct conduct or behavior: The CEO asked his accountants to alter the company records for years before one of them eventually reported his unethical behavior to a newspaper.

find one's way (v. phrase) to discover the best path, over time, and eventually make progress: Without the guidance and advice of my uncle, I think it would have taken me years to find my way in such a large organization.

groom (v.) to prepare or ready for a specific objective: Gerald's parents have been trying to groom him to take over the family accounting business since he first started showing an interest in math at the age of four.

instill (v.) to infuse slowly or gradually into the mind or feelings of someone: Mr. Gibson's rousing speech instilled a sense of purpose and determination in all of us after a difficult year at the company.

larger-than-life (adj.) very impressive or memorable, especially in appearance or character: Ms. Collins comes across a bit larger-than-life — she speaks, laughs, and even sneezes more loudly and impressively than anyone else in the building. Many of her colleagues are intimidated by her.

lay the blame (v. phrase) attribute the fault or error: The only thing Ben is better at than making mistakes is finding somewhere else to lay the blame. I don't think I've ever seen him admit to one of his blunders.

newcomer (n.) a person who has recently arrived: All the newcomers will be invited to a breakfast and an orientation meeting with HR to welcome them to the company.

only a matter of time (expression) becoming apparent, clear, or obvious after a period of time: It was only a matter of time before the team realized that the deadlines were impossible to meet.

orchestrate (v.) to conduct, lead, or arrange: A good leader spends more time orchestrating the work of others than doing the work herself.

personal hardship (n.) a difficult situation that causes suffering and/or great inconvenience: Despite the personal hardship of having to work nights and most weekends for months in order to finish the project, Reggie never complained or behaved ungraciously toward his colleagues.

perspective (n.) point of view: Andrea was asked to join the team because of her unique perspective on the Italian youth market.

phone it in (expression) not take the job seriously and simply telephone your contribution to the recipient: "Did Scott do what you needed him to do on the design?" "Are you kidding? He doesn't care about anything anymore. The guy's phoning it in these days."

reverberate (v.) to echo many times: The effects of the company's sale will reverberate among its employees for years to come.

show up (v. phrase) to put in an appearance; arrive: We know that Marina doesn't particularly care about the work we're doing, but the fact that she didn't even show up for the meeting demonstrated a real lack of respect for all of us.

sound (adj.) sensible; solid; well thought out: Because he decides nothing hastily, most of Barry's decisions are quite sound.

turn them loose (v. phrase) to lift restrictions or limits: After making it clear to her employees what the end results must be, Karen decided to turn them loose to see how they would organize themselves and the project.

REVIEW

A Recap of Objectives

Chapter 1: Growing the Business

- Describing growth strategies
- Comparing approaches to growth
- Discussing strategic alliances and mergers and acquisitions

Chapter 2: Launching a New Venture

- Describing the process for launching a new business
- Describing management styles that lead to innovation
- Naming DOs and DON'Ts for companies seeking to innovate

Chapter 3: Managing Risk

- Describing risk in the business world
- Explaining what is at risk
- Describing risk management and its benefits

Chapter 4: Making Change Work

- Explaining the concept of “vision”
- Discussing the factors that drive change
- Enumerating the steps in the change process
- Describing the ideal change agent

Chapter 5: Leadership

- Describing qualities commonly associated with leaders
- Explaining the difference between managing and leading
- Talking about what good leaders do

CHAPTER 1 – ROLE CARD A

Clothing Change

You are one of ten division managers of Essential Apparel (EA), a large retail clothing store chain with stores in Europe, Asia, and South America. You and your fellow managers are under pressure to increase competitiveness at EA. The company's executive committee is especially concerned about distribution costs, outdated information systems, and "tired" marketing and promotional strategies.

When it comes to distribution, IT, and marketing, you don't believe the foundation for success is in place. You would like to build strategic alliances with several key firms in these areas to bring about the improvements that the executive committee is seeking. However, you are not the only decision-maker in this process. All the division managers have been asked to work together to develop a plan of action to present to the executive committee.

The division managers have been meeting in small groups in person, via conference calls, and through exchange of e-mail. It is too difficult for all the division managers to meet on a regular basis. In a few moments, you will be meeting with one of the other division managers to discuss possible solutions. You're meeting with this division manager in person because you're located relatively near each other.

It's time for your meeting.

CHAPTER 2 – ROLE CARD A

Innovation First

You are one of two vice presidents at a newly launched venture in the interactive entertainment industry. It is common knowledge that this industry is moving so rapidly that it's impossible to predict where companies competing in this market will be in two years. In such a climate, innovation is key. The company that innovates most often and with the greatest success will capture the public's attention and have a definite advantage in years to come.

You believe that in small organizations such as your own, every single employee should be enlisted in the process of innovation. One never knows where the next great idea may come from, so you would like to organize a series of meetings in which you announce a challenge to all thirty-five employees to spend just 20 minutes every day imagining the future of your business. After all, your employees are the same kind of people who buy your company's products and services. Who better than they to imagine the next generation of offerings?

In a few moments, you will be meeting with the other vice president to build support for this idea. You know the idea is very sound. It's your job to convince your colleague of this.

CHAPTER 1 – ROLE CARD B

Clothing Change

You are one of ten division managers of Essential Apparel (EA), a large retail clothing store chain with stores in Europe, Asia, and South America. You and your fellow managers are under pressure to increase competitiveness at EA. The company's executive committee is especially concerned about distribution costs, outdated information systems, and "tired" marketing and promotional strategies.

You believe the foundation for success is in place. Your position is that the company needs to invest more money in its distribution and IT systems, as well as its marketing department to bring about the improvements that the executive committee is seeking. However, you are not the only decision-maker in this process. All the division managers have been asked to work together to develop a plan of action to present to the executive committee.

The division managers have been meeting in small groups in person, via conference calls, and through exchange of e-mail. It is too difficult for all the division managers to meet on a regular basis. In a few moments, you will be meeting one of the other division managers to discuss possible solutions. You're meeting with this division manager in person because you're located relatively near each other.

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You are concerned that your company does not have a sufficient number of "idea" people capable of imagining the future of such a volatile business. You would like to hire two or three technical innovators in this field and create a small "idea factory" within the company, whose sole responsibility will be to generate cutting edge product and service ideas.

In a few moments, you will be meeting with the other vice president to build support for your idea. You know the idea is very sound. It's your job to convince your colleague of this.

CHAPTER 3 – ROLE CARD A

In Search of a CRO

You work for a large international company with interests in household goods. You are one of two executive officers who is responsible for making a recommendation to the CEO with regard to the hiring of the company's first Chief Risk Officer.

You are most concerned with risks to your company's tangible assets. For this reason, you believe in sharing risk with strategic partners and third parties. You feel that your company should do everything it can to identify an insurance expert who could help the company prepare itself for the possibility of a catastrophic loss.

You're aware that your colleague has a different perspective and is more concerned about the risk to your company's intangible assets, including intellectual property and human capital. The two of you have arranged a meeting to discuss the issues and to try to reach a consensus. It's time for your meeting now.

CHAPTER 4 – ROLE CARD A

Two Very Different Styles

You work for a medium-sized firm, once a leader in its markets sector, but whose business has suffered significantly over the past ten years. You were hired three months ago, as one of a team of two change agents whose mission is to figure out what changes need to be made in order to revive company revenues.

Naturally, you have been working very closely with the other change agent, discussing strategies, learning the business, and preparing a vision for the company's much-needed transition. In the past three weeks, it has become very apparent that you and your colleague have very different approaches to change. You like making tough decisions and announcing them to the staff and then telling them the change will be executed. Your colleague seems to prefer the team approach and is clearly more people-oriented than you. Your colleague has a talent for energizing people, which may be nice, but seems unnecessary when the organization needs results — and fast.

You'd be very happy working entirely alone, of course, but the president of the company has made it clear that you should work together. Your colleague has asked for a meeting so that the two of you can have an open, honest discussion about your very different approaches. Express your reservations to your colleague — you wonder if your contradictory styles could delay or, worse, derail the program you are trying to implement. Then ask the question that has been bothering you a lot lately: Why did the president want the two of you to work together?

It's time for your meeting.

CHAPTER 3 – ROLE CARD B

In Search of a CRO

You work for a large international company with interests in household goods. You are one of two executive officers who is responsible for making a recommendation to the CEO with regard to the hiring of the company's first Chief Risk Officer.

You are most concerned with risks to your company's intangible assets. For this reason, you believe that any candidate you consider seriously must have a background in information systems, network security, and protection of intellectual property.

You're aware that your colleague has a different perspective and is more concerned about the risk to your company's tangible assets, including inventories, facilities, and financial holdings. The two of you have arranged a meeting to discuss the issues and to try to reach a consensus. It's time for your meeting now.

CHAPTER 4 – ROLE CARD B

Two Very Different Styles

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Naturally, you have been working very closely with the other change agent, discussing strategies, learning the business, and preparing a vision for the company's much-needed transition. In the past three weeks, it has become very apparent that you and your colleague have very different approaches to change. You prefer the team approach. You are very people-oriented. You have a talent for energizing people and building consensus. Your colleague is a take-charge kind of person, ready to make tough decisions and stand by them, no matter how the staff reacts. Your colleague seems to be perpetually in the command-and-control mode.

You'd be very happy working entirely alone, of course, but the president of the company has made it clear that you should work together. You've asked for a meeting so that the two of you can have an open, honest discussion about your very different approaches. Express your reservations to your colleague — you wonder if your contradictory styles could delay or, worse, derail the program you are trying to implement. Then ask the question that has been bothering you a lot lately: Why did the president want the two of you to work together?

It's time for your meeting.

CHAPTER 5 – ROLE CARD A

Passing the Baton

You are the founder, owner, and president of a small, but very successful business, which you have run for sixty years. Several months ago, you announced that you would retire at the end of the year.

You have not yet named your successor. Three people have worked very closely with you over the years. One clearly considers himself your likely successor. He has made references to "taking over" repeatedly since you first announced your decision to retire. Unfortunately, some of the qualities you'd most like to see in your successor are lacking in this candidate.

Before you approach either of the other two to begin discussing their candidacies for the position, you feel it is important to speak to the one who has already "accepted" the job. Explain that you value his many contributions to the business, but you do not see in him the qualities you value most in a leader: patience, openness, humility, and respectfulness (toward all employees and customers — even competitors).

Pick up the phone and call this employee into your office.

CHAPTER 5 – ROLE CARD B

Passing the Baton

You work for a small, but successful privately-owned business. The founder, owner, and president of the firm announced several months ago, that after sixty years at the helm, he would retire by the end of the year. Lately, you have sensed that the president is preparing to name a successor.

Two other colleagues and you have worked most closely with the president over the years. The truth is, however, neither of the colleagues has ever worked quite as hard as you have. Neither has made the sacrifices. Neither has taken the risks.

You're fairly certain that you are the president's first choice as a successor. You've even jokingly made some references to "taking over" after the president retires. You keep wondering when the ice is going to be broken, but, of course, it's not your place to bring up the subject.

Your phone is ringing. Pick it up.

Your Turn

1 A: Tell the class about any strategic alliances which your company (or one that you are familiar with) has with another organization. What do the companies collaborate on? Do you think the two companies contribute equally to the partnership, or does one contribute more than the other? What do you think are the most and least valuable aspects of this alliance?

B: Ask someone in your class about a merger or acquisition that they have heard about in the news. What was the size of the firms that were involved? Does the merger or acquisition appear to be successful? What were some of the key reasons for the merger or acquisition? Share your discussion with the rest of the class.

2 A: Tell the class how innovation happens at your company. Is there a spirit of innovation throughout the company? Or is innovation the responsibility of a few highly specialized individuals? Have you personally introduced innovative ideas at your company? If so, describe one such innovation to the class.

B: Ask a classmate about an attempt at innovation in the business world that was either extremely successful or unsuccessful. Why did the effort succeed / fail? Have other organizations succeeded / failed in this area? How were their efforts different from the first company's? Share your findings with the class.

3 A: Tell the class about some risk management techniques that your company uses. What parts of your job contribute to reducing risk for your company? What are some of the benefits of these strategies? What other things could you do to help reduce risks at your firm?

B: Ask a classmate about the greatest source of risk at his company. What is the source of the risk? How difficult is it to safeguard against this risk / these risks? Is your classmate's company doing a good job of managing these risks? Report your findings to the class.

4 A: Tell the class about how change is viewed in your organization. Are some departments more quick to change than others? If so, why? Are certain managers well known for their strategies for change in your company, or do all managers participate in change programs? In your opinion, what is the most difficult aspect of corporate change?

B: Ask a classmate about his or her biggest worries regarding change in the workplace. What type of change would be most difficult for your classmate? Why? Has your classmate ever experienced such change before? or witnessed it with other employees or departments? Ask your classmate if change in the business world is necessary. If so, what can companies do to minimize resistance to change? Share your findings with the class.

5 A: Tell the class about the greatest leader you have had the pleasure of knowing. What is it that made this leader great? What is your fondest memory of this leader?

B: Ask a classmate to tell you the five attributes she believes are most important in a leader. Ask the classmate to explain why these attributes are more important than other attributes commonly associated with leaders. Share your findings with the class.

CHAPTER 1 – ROLE CARD A

Preliminary Partnership Discussions

You are a small business owner, fighting for survival in a tough market. Your areas of strength include your purchasing and distribution systems. You are satisfied with your marketing and promotional strategies, although you are the first to admit that these could be improved. Your biggest weaknesses are your information systems and technological capabilities. You also feel that creativity and new ideas have recently been in short supply at your firm.

You have identified another small company that you think is potentially the perfect partner for your small business. This company offers products and services that complement your own offerings extremely well. You have undertaken preliminary discussions with this company, and there was clearly a mutual interest. Now you need to confirm that you have compatible goals. Although you haven't yet discussed it, you aren't interested in joint product development because you're satisfied with your current product line.

It's time for your next meeting with the owner of the potential partner.

CHAPTER 2 – ROLE CARD A

Idea Man

You are the newly hired CEO of a national supermarket chain. The Board of Directors has given you a mandate to grow revenues and increase operating margins. The directors have made it clear that you have a short period of time to start showing results.

You are new to this industry. You have held upper management positions in several companies over the last fifteen years and you have a reputation for innovation and bold thinking. You recognize that the grocery store business is a slow growth sector. This doesn't intimidate you. You are confident that you will find ways to bring about innovation within six months to a year, and you are certain that you were hired specifically because of your ability to create a climate of innovation.

You are meeting with all of the company's officers to discuss your plans. You are seeking to determine which of them will be part of the company's "future of innovation." It's time for your meeting with the COO, who is at your door now.

CHAPTER 1 – ROLE CARD B

Preliminary Partnership Discussions

You are a small business owner, fighting for survival in a tough market. Your areas of strength include your information systems and technological capabilities in your office. You are satisfied with your purchasing and distribution systems, although these could be improved. You are concerned that new ideas and creative energy have been non-existent in your firm during the past year. For this reason, your marketing and promotional strategies have been very weak.

You were contacted by another small company that suggested there are many compelling reasons why you should discuss opportunities for a strategic alliance. They offer products and services that complement your own offerings extremely well. You have undertaken preliminary discussions with this company, and there was clearly a mutual interest. Now you need to confirm that you have compatible goals. Although you haven't yet discussed it, you are hoping that this will be an opportunity to consider joint product development.

It's time for your next meeting with the owner of the potential partner.

CHAPTER 2 – ROLE CARD B

Idea Man

You are the COO of a national supermarket chain. The Board of Directors has recently appointed a new CEO who has been given a mandate to grow revenues and increase operating margins. The new CEO has a reputation for bringing a spirit of innovation to companies.

You have worked for this company for twelve years. You know the business well. It's a slow growth industry. You have seen a succession of CEOs accept the Board's challenge to grow revenues and increase margins. So far, few have managed to bring about lasting change for the company.

Personally, you believe that revenues *can* be grown and margins *can* be increased. But, in your opinion, this will not be achieved through new products and services. You feel that the company should focus on doing a better job in its current business. There is a lot of inefficiency and wastefulness that needs to be addressed.

You have been asked to get the new CEO up to speed on the business from your point of view. It's time for your meeting now. Go knock on the CEO's door.

CHAPTER 3 – ROLE CARD A

To Swing or Not to Swing

You and a friend have been incorrectly accused of wrong-doing in a foreign country. You have been held against your will without any real hope of returning home until last night, when one of the guards took pity on you and agreed to turn his back while the two of you escaped.

Unfortunately, you and your friend are chained at the feet, so any decisions you make must be made together.

You have just reached a deep canyon, across which your homeland — and freedom — await. Crossing the canyon, however, will be extremely difficult. There is an old, tattered rope bridge, but it doesn't look very reliable. You would much rather use a vine attached to a nearby tree. It appears to be long enough to swing to the other side of the canyon. You have tested its strength, and it held the two of you without any problem.

You can hear men approaching. They are not far away. You must make a decision quickly.

CHAPTER 4 – ROLE CARD A

Don't Take It Personally

You're the manager of a key department in a large company. You were recently assigned to this department to assist during a period of transition. In fact, you were asked to "engineer" the transition. Essentially, the problem was that the department's process, workflow, and methods are no longer cutting edge and revolutionary, as they were fifteen years ago. Your mandate was to update these processes and methods and restore the department's reputation for efficiency and results.

You're now five weeks into the transition and you're not seeing the improvements you had expected. You recognize that change takes time, but there is clearly something more at work here. One of the long-time employees of the department, a man who has the respect of everyone and a key role in the group, doesn't seem to have begun to make any changes in his work at all.

This employee is very sharp and clearly understands the new processes and methods. You've even spoken to this employee to make sure that the new processes and methods were clear.

Your patience with this member of the team is beginning to wear thin. Call the employee into your office and find out why the employee is resisting the department's change effort.

CHAPTER 3 – ROLE CARD B

To Swing or Not to Swing

You and a friend have been incorrectly accused of wrong-doing in a foreign country. You have been held against your will without any real hope of returning home until last night, when one of the guards took pity on you and agreed to turn his back while the two of you escaped.

Unfortunately, you and your friend are chained at the feet, so any decisions you make must be made together.

You have just reached a deep canyon, across which your homeland — and freedom — await. Crossing the canyon, however, will be extremely difficult. There is a vine attached to a nearby tree. It appears to be long enough to swing to the other side of the canyon, but you have your doubts and are afraid that you will be left hanging over the middle of the canyon — or worse. Although you have tested the vine's strength, you are not convinced that this is the safest route. There is also an old rope bridge which spans the canyon. It's a little tattered, but looks to have been made by expert hands many years ago. This is your preferred route across.

You can hear men approaching. They are not far away. You must make a decision quickly.

CHAPTER 4 – ROLE CARD B

Don't Take It Personally

You're a middle-manager in a key department in a large company. You've been with the company more than twenty years. During your career you've developed a reputation for hard work, good ideas, dedication, and honesty. You like your job, and you like the company.

Two months ago, a new person was brought in to lead your group. The CEO, who has been with the company five years, announced to you all that the new person was "going to lead this department into the future." "We'll see," you thought.

After a few weeks of talking to the staff, reviewing the department's results, and studying how all the employees did their jobs, the manager announced that the department was going to update its processes, workflow, and methods. This bothered you. After all, you developed many of the current processes and methods yourself fifteen years ago. At the time, your work was celebrated throughout the company — even the industry.

The department is five weeks into the transition, and you've stubbornly continued doing things that you always have. "Why fix something if it isn't broken?" you ask yourself every day.

Your manager is calling you. Go into the manager's office.

CHAPTER 5 – ROLE CARD A

Are You Asking Me?

You are the CEO of a large, multi-national corporation. From time to time, you invite younger managers into your office and ask them to share their ideas with you on what changes they think the company needs to make. You have discovered many interesting ideas this way. You have also met some very talented young people in your organization and have been able to help them develop their careers.

Anyone whose idea you decide to implement is invited, of course, to participate in the project. This has given you the opportunity to work with and develop the leadership skills of many talented middle managers within the organization.

Today is one of those days when you feel like hearing some new ideas. Call a middle manager you don't know well and invite this person to come into your office and share some ideas for change.

CHAPTER 5 – ROLE CARD B

Are You Asking Me?

You are a middle manager among hundreds of middle managers in a large, multi-national corporation. You work in the corporate headquarters where the company officers work; however, you have never had the opportunity to work with them directly.

You have many ideas for changing the company and would very much like to have an opportunity to discuss them with one of the executives in the building. Your ideas include: flexible work hours for employees in the creative departments (most of these employees complain about having to work in the morning); better access to customer feedback (you haven't heard a direct customer comment in three years); and fewer accountants in upper management (why doesn't anyone on the executive committee have operations experience?).

You're not sure which of these ideas you would share if given the opportunity, but you think that each has merit. Unfortunately, there is simply no mechanism at your company for sharing ideas with upper management.

Your phone is ringing. Pick it up.

1 Match the names of the growth strategies below with the descriptions of each strategy.

- | | | | | | |
|-----------------------|------------------------|-------------------------|--------------------------|------------------------|------------------------|
| a. EXPAND
BUSINESS | b. DEVELOP
PRODUCTS | c. ACQUIRE
CUSTOMERS | d. INVEST IN
BUSINESS | e. PURSUE
ALLIANCES | f. MERGE OR
ACQUIRE |
|-----------------------|------------------------|-------------------------|--------------------------|------------------------|------------------------|

- ___ We seek to forge partnerships with other organizations.
- ___ Over the next five years we will significantly increase our expenditures for R&D.
- ___ We have identified new market segments and new geographical areas where we will attempt to launch some of our products.
- ___ One must be careful to assess differences in management styles and philosophies when considering how best to blend one's organization with another.
- ___ We are hoping to educate more consumers and increase market share through more focused marketing efforts.
- ___ Having saturated the market with our products, we are now looking to offer add-ons and enhancements to our existing customers.

2 Match the words in the box with the series of words most similar in meaning.

- | | | | |
|---------------|-----------------------|------------------|---------------|
| a. philosophy | c. strategic alliance | e. compatibility | g. patent |
| b. integrity | d. due diligence | f. capability | h. reputation |

- ___ investigation, verification, confirmation
- ___ license, privilege, protection
- ___ attitudes, beliefs, ideology
- ___ incorruptibility, virtue, honesty
- ___ collaboration, mutual benefit, affiliation
- ___ distinction, respectability, character
- ___ competence, qualification, skill
- ___ fit, affinity, agreement

3 Match each of the following types of strategic alliances with the best description.

- | | |
|----------------------------|---|
| a. distribution agreements | c. marketing and promotional agreements |
| b. purchasing agreements | d. technology transfer agreements |

- ___ two or more firms employ mechanisms to stimulate the transmission of specialized skill, knowledge, and expertise with each other
- ___ firms combine buying volumes to increase power in working with suppliers
- ___ provide firms with access to new markets or strengthen position in existing markets
- ___ companies share resources to increase impact of advertising and brand awareness efforts

1 Match each statement in the first group with a statement from the second group similar in meaning.

1. ___ We will face stiff resistance from customers if we replace our proven products with new ones.
 2. ___ We can better implement the new process if we gain buy-in from our colleagues.
 3. ___ The executive group has fostered creativity and innovation since the company's inception.
 4. ___ If they don't consider the implications of their lack of vision, they will be unable to avoid destructive consequences.
 5. ___ The biggest player in the industry continues to gobble up partners and competitors alike.
- a. Our R&D department has always had upper management's full support.
 - b. That sector of the market is dominated by a company whose single, greatest activity is acquisition.
 - c. Employees' support of the new policy will undoubtedly boost its results.
 - d. It will be difficult to gain acceptance from customers on this innovative line of products.
 - e. Since they aren't attempting to innovate, this very traditional firm is living on borrowed time.

2 Match each activity or policy with the appropriate category.

- | | | | |
|---|---|---|-------------------|
| a. Fostering Innovation
Create an innovative,
"idea" team | b. Fostering Innovation
Collaborate and
communicate | c. Fostering Innovation
Integrate innovation
throughout the company | d. Not Innovating |
|---|---|---|-------------------|

1. ___ challenging employees to find new ways to make their jobs more efficient
2. ___ cutting prices to compete with another company's "hot," new tech toy
3. ___ organizing informal, "brown bag lunch" meetings, during which members of different project teams share information and explain challenges in their work
4. ___ assembling a committee whose focus is to generate product and service ideas

3 Choose the word or phrase that best completes each sentence.

- | | | | | |
|------------------|----------------------------|---------------------------|------------|---------------|
| a. cannibalizing | c. core business | e. getting their feet wet | g. chaotic | i. innovative |
| b. track record | d. living on borrowed time | f. fell into the trap | h. ante up | j. ventures |

A fairly recent, ___ (1) addition to the world of publishing is that of digital media and on-line content. Some large publishers and a few start-up companies have chosen to launch new ___ (2) that offered proprietary information on the Internet for a fee. Unfortunately, not many anticipated the truly ___ (3) nature of the on-line arena or all the potential problems that would arise. A few of the firms offering books and other content on the Web found that they risked ___ (4) sales from their existing bricks-and-mortar business, thus damaging their ___ (5). The number of customers visiting such Websites continued to increase for a time, initially prompting those companies involved to assume significant sales volumes would follow. However, the majority of customers have simply downloaded free promotional material. Few have been willing to ___ (6) hard cash for content. Not surprisingly, some companies that had not yet established a ___ (7) in the industry ___ (8) of recycling and repurposing what little content they had, instead of investing in new content development. It is still too early to predict the eventual success or failure of these endeavors, but some feel that companies relying on the sale of content over the Internet are ___ (9) and that they would have been much wiser to fully assess the market for on-line content before ___ (10).

- 1** Match each statement in the first group with a statement from the second group with a similar meaning. Write the letter corresponding to the statement in the blank provided.

1. ___ Rather than putting his thoughts on paper, he chose to tell a parable to highlight his concerns.
 2. ___ Our decision-making process balances rewards and penalties in consideration of the risk involved.
 3. ___ The insurance manager notified Human Resources that workers' compensation premiums are rising.
 4. ___ Internal audit discovered that the firm's reports do not accurately reflect capitalized expenditures.
 5. ___ Legal counsel will prepare documents clarifying the company's position with regard to the contract.
- a. Employee coverage for job-related injuries is costing the company more and more.
 - b. Our financial examiners have determined that inaccuracies exist in all records relating to capital investments.
 - c. We are reconsidering our business goals to take into account both upside and downside scenarios.
 - d. Our lawyers will try to sort out all outstanding contractual issues.
 - e. The manager presented a brief story to our team instead of simply sending us an e-mail or memo.

- 2** Match items from the Word Bank to each word or phrase with similar meaning from the chapter. Write the letter corresponding to each term; then write out the term or phrase.

Word Bank

- | | | | |
|-------------|------------------|---------------------|----------------------------|
| a. patent | e. cheating | i. computer virus | m. promissory note |
| b. gamble | f. instability | j. minimize loss | n. difficult to define |
| c. abstract | g. spread risk | k. unpredictability | o. deliberate deception |
| d. wager | h. trade secrets | l. infected message | p. certificates of deposit |

- | | | | | |
|---------------------------|-----|-----|-----|-----|
| 1. negotiable instruments | ___ | ___ | ___ | ___ |
| 2. diversify | ___ | ___ | ___ | ___ |
| 3. bet | ___ | ___ | ___ | ___ |
| 4. intangible | ___ | ___ | ___ | ___ |
| 5. intellectual property | ___ | ___ | ___ | ___ |
| 6. volatility | ___ | ___ | ___ | ___ |
| 7. e-mail worm | ___ | ___ | ___ | ___ |
| 8. fraud | ___ | ___ | ___ | ___ |

- 3** Read each company description of its risk policy. Then select the correct risk management technique for each.

- a. AVOID b. DIVERSIFY c. CONTROL d. SHARE e. TRANSFER f. ACCEPT

1. ___ assign some or all of the risk to another party
2. ___ identify ways to prevent and detect potential risks
3. ___ redesign processes in such a way that risk is minimized or eliminated altogether
4. ___ purchase policies that cover losses excluded by standard policies
5. ___ recognize that some measure of risk is inherent in all business dealings
6. ___ spread out one's risks so that no single division is more vulnerable than any other

1 Match items on the left with a word or phrase with the opposite meaning.

- | | |
|---------------------------------------|---|
| 1. ___ pick your battles | a. not communicated at all levels |
| 2. ___ work its way through the ranks | b. does not face much difficulty |
| 3. ___ work cut out for her | c. unable to learn, adopt, or identify with |
| 4. ___ vision | d. dull, uninteresting |
| 5. ___ won over | e. avoid expressing in words |
| 6. ___ articulate | f. argue every issue that bothers you |
| 7. ___ vivid | g. without an image, plan, or concept |
| 8. ___ internalize | h. unconvinced |

2 Match each statement in the first group with a statement from the second group with a similar meaning. Write the letter corresponding to the statement in the blank provided.

- | | |
|--|--|
| 1. ___ In order to formally incorporate these changes in our firm, we need to develop training systems and new procedures to support employees. | |
| 2. ___ The efforts to drive change were only modestly successful because the manager did not develop effective processes or cultivate relationships during the transition. | |
| 3. ___ Mr. Drake will use a variety of vehicles to communicate the announcement both internally and externally. | |
| 4. ___ Ms. Cortés is the ideal person to communicate the message because of her reputation for fairness, trustworthiness, and integrity. | |
| 5. ___ The company is seeking a leader who can create a road to a new future. | |
| a. If the team leader had developed and refined methods and alliances more carefully, he could have achieved much more during the transformation. | |
| b. If we hire someone, it must be a person with a clear vision for the organization and the industry. | |
| c. We must build improved procedures and activities to help our staff institutionalize all necessary changes. | |
| d. By using several different channels to broadcast the message, both employees and customers will receive the important information. | |
| e. Because our speaker has such credibility, we expect our investors to accept the difficult news. | |

3  **TRACK 16:** Listen again to the interview with Maya Hu-Chan. Write "EC" to indicate which strategies below are recommended by the executive coach. Write an "X" to indicate items not recommended by the consultant.

1. ___ Leaders must evaluate the change process and make decisions from the upper level of the organization and base strategies on financial statements and prospective deals.
2. ___ Leaders must share information during times of transition.
3. ___ Leaders should work to complete the transformation process in the shortest amount of time.
4. ___ Leaders must communicate to staff exactly how changes will affect them.
5. ___ Leaders must stimulate discussion with employees and consider their comments and concerns.

1 Match the first and second columns to create qualities, characteristics, and responsibilities of good leaders.

- | | |
|------------------------------|---|
| 1. ___ makes commitments | a. to take action |
| 2. ___ conveys her passion | b. to improve himself, to learn |
| 3. ___ aligns company staff | c. of professional and personal experiences |
| 4. ___ must constantly work | d. and honors them |
| 5. ___ stand on firm | e. with people both inside and outside the organization |
| 6. ___ empower employees | f. moral ground at all times |
| 7. ___ must have a diversity | g. to others in the organization |
| 8. ___ needs to communicate | h. toward a common goal |

2 Complete the sentences with the appropriate word or words.

- | | | |
|--|------------------|-----------------|
| 1. Leaders should be technically ____. | a. complacent | b. proficient |
| 2. Mr. Sims has been at the ____ for fifteen years. | a. helm | b. groom |
| 3. Good leaders can prevent ____ of human assets. | a. build-up | b. erosion |
| 4. Everyone should be able to ____ at himself. | a. empower | b. laugh |
| 5. People expect their leaders to make ____ decisions. | a. sound | b. orchestrated |
| 6. Employees who don't care, simply ____. | a. phone it in | b. turn loose |
| 7. When things go wrong, courageous managers ____. | a. lay the blame | b. admit errors |
| 8. Good leaders are generous with ____. | a. information | b. success |

3  **TRACK 19:** Listen to the audio and check off each of the challenges facing leaders that the consultant mentions. Then match the examples of each challenge with the correct category.

- | | |
|-------------------------------------|--------------------------------------|
| a. ___ collaborative management | f. ___ virtual management |
| b. ___ global management | g. ___ data management |
| c. ___ market management | h. ___ role management |
| d. ___ technology management | i. ___ youth management |
| e. ___ time and resource management | j. ___ management of large companies |

- ___ Leaders are expected to do more with less.
- ___ The work force becomes increasingly diverse with different perspectives, expectations, and needs.
- ___ Physical distances between colleagues and clients increase and people meet face to face less frequently.
- ___ There is a much more participatory, collaborative approach to management.
- ___ Leaders must keep up with changes in technology and invest in new technologies.
- ___ Workers are becoming younger and have a different set of values, motivations, and ambitions than their older counterparts.

Answer Key

CHAPTER 1

Exercise 1

1. e 2. d 3. a 4. f 5. c 6. b

Exercise 2

1. d 2. g 3. a 4. b 5. c 6. h 7. f 8. e

Exercise 3

1. d 2. b 3. a 4. c

CHAPTER 2

Exercise 1

1. d 2. c 3. a 4. e 5. b

Exercise 2

1. c 2. d 3. b 4. a

Exercise 3

1. i 2. j 3. g 4. a 5. c 6. h 7. b 8. f 9. d 10. e

CHAPTER 3

Exercise 1

1. e 2. c 3. a 4. b 5. d

Exercise 2

1. m, p 2. g, j 3. b, d 4. c, n 5. a, h 6. f, k 7. i, l 8. e, o

Exercise 3

1. d 2. c 3. a 4. e 5. f 6. b

CHAPTER 4

Exercise 1

1. f 2. a 3. b 4. g 5. h 6. e 7. d 8. c

Exercise 2

1. c 2. a 3. d 4. e 5. b

Exercise 3

1. X 2. EC 3. X 4. EC 5. EC

Answer Key

CHAPTER 5

Exercise 1

1. d 2. g 3. h 4. b 5. f 6. a 7. c 8. e

Exercise 2

1. b 2. a 3. b 4. b 5. a 6. a 7. b 8. a

Exercise 3

Challenges: b, d, e, f, h, i

1. e 2. b 3. f 4. h 5. d 6. i

CHAPTER 1

ACTIVITY 9 | TRACK 1

- *Joining us today by telephone to share his insights on strategic growth is Bain & Company consultant and author, Chris Zook.*
- *Chris Zook is author of the now classic Profit from the Core. A Director at Bain & Company and head of their Global Strategy practice, Zook has been helping corporations devise growth strategies for 20 years. He has recently published Beyond the Core, the featured title in Harvard Business School Press' winter line-up. Chris Zook, thanks for speaking with us today.*
- *My pleasure. Thank you very much.*

TRACK 2

- *In your book Profit from the Core you say that the first step in determining how to grow profits is to identify the core business. How does a company do that?*
- *Well, it's certainly tough to decide what to become in the future, through growth, if you don't know who you are now. Understanding your core is the first building block of growth strategy. It comes through both thought and analysis about the areas where you beat the competition, where you have unusually loyal customers, and where you can earn above average profits relative to your competitors.*

TRACK 3

- *Is there a magic number of core businesses a global corporation should have?*
- *During some extensive research we did at Bain & Company on about 8,000 companies in the G7 economies, we found that only 13% of companies worldwide achieved even a modest level of sustained and profitable growth over the past 10 years. Our analysis shows that the most successful companies were those companies with one or two very strong cores where they had leadership and where they built growth programs around those cores with the patterns over time almost looking like the growth rings of a tree. Conglomerates with many different cores fared somewhat worse than focused companies with a single strong core with a small number of exceptions, such as G.E. Yet even a closer look at G.E. reveals that Jack Welch, when he took over as chief executive, cut back the number of core businesses from over twelve to around five.*

TRACK 4

- *And if a company has a solid understanding of its core business, what comes next?*

- *Well, next it is essential to decide whether or not you've attained full potential in the core. Or whether it is actually time to begin to push the boundaries of the core business out into new areas, into the unknown. A majority of CEOs currently believe that their core business is not even within 50% of its full potential for profitable growth. So for those companies, that should always be the first priority. The history of business shows that many companies, like Bausch & Lomb, in contact lenses, got in a lot of trouble by prematurely abandoning their core business, as Bausch & Lomb did in the mid-1980s in search of new, hot areas. In this case, hearing aids, ointments for the skin, and dental products. And in the process they left its very strong core business under-protected. Today, the contact lens core that was once dominant is in fourth place worldwide, and Bausch & Lomb has actually divested every single one of those other growth businesses that they pursued when abandoning their core. Our work at Bain, and as reflected in the book, has identified over a hundred cases where this has happened in large companies.*

TRACK 5

- *Let's say a company's management has done the analysis, and there's little or no room to grow the core business, where should they look for growth?*
- *The next step is always to look at pushing the boundaries of the core business out into new areas, into the unknown. We call these "adjacency" moves. And in statistical analysis of several hundred of them we find that only about one in four, 25%, are successful on average at generating profitable growth. Yet it's interesting that for some companies the most successful growers find ways to be successful 75% of the time. That's what the new book, Beyond the Core, is about. A great example is Vodafone, in cellular telephone service, that is now looking for new growth by moving into new services that can be sold over the phone — connected to the Internet, for example. This is a departure from their early wave of growth, which was fueled by geographic expansion and then by a penetration of cellular phone users. Now most people have the phones. The next wave of adjacent growth has to come from service expansion.*
- *Chris Zook, I'd like to thank you for joining us today.*
- *You're welcome, my pleasure.*

CHAPTER 2

ACTIVITY 9 | TRACK 6

- *Joining us again by telephone to talk about innovation and launching a new business venture is Bain & Company*

consultant and author, Chris Zook. Thanks for joining us today.

– Thank you. My pleasure.

TRACK 7

– *When does it make sense for a company to consider starting a new venture?*

– Well, new ventures are really just one part of an overall growth strategy for a company. We find that the best companies first invest in achieving full potential within their current core markets and products. At Bain & Co., we catalogued hundreds of growth moves and we found that the biggest mistake is to prematurely abandon the core for new ventures.

Now after guarding against that danger, the second priority is to push out the boundaries of the strongest core businesses into new territory, into the unknown. We call these types of moves *adjacency moves*. The average company today plans to double its market growth rate and to grow earnings at four times its market growth rate. The way most CEOs think they will do this is through adjacencies surrounding the core.

In attacking the topic of adjacencies, the very first thing to do is to map out all of the alternatives — all of the venture possibilities — and to develop a rigorous set of evaluation criteria to apply against the various new ventures. Though this sounds obvious, few companies agree on the criteria and fewer map out all the growth alternatives at one time and in one place. I had a long discussion with Sir Brian Pitman, who for thirteen years was chief executive officer of Lloyds Bank in England, which went from the worst performing bank in the UK to one of the five best performing banks in the world. And in asking him what he thought was the most important thing he did to turbo-charge the bank growth rate profitably and bypass competitors, he describes how it was to establish the criteria and a very clear menu of all the growth opportunities and criteria that everybody agreed on. When he joined, he realized that people neither agreed on the criteria nor had they set them.

TRACK 8

– *What should companies watch out for in this process?*

– Our research has identified four primary things that can go wrong and that particularly need to be guarded against. One is prematurely abandoning the core for the next new hot idea. Make sure you're near full potential there first.

Second thing that can go wrong is falling into what I will call a "trap of false enthusiasm." That is when you believe a venture is more related to your core than it really is. A

third example is losing track of what your true core business is and what you are really good at. Sometimes leading to misconceived growth ideas.

And finally, failing to map out all of the linkages between the core and the new growth opportunity is absolutely critical. Many failed ventures can be traced to situations where the venture was either buried within the core and was taken over by it. A case in point would be the early history of Intel, which had difficulty starting new ventures. Or, on the other hand, where the new venture was isolated and even resented by managers in the core and was starved for the necessary contact and resources that it vitally depended on. I think that those are the four key "watch outs" for corporations starting up new growth ventures.

TRACK 9

– *In your experience, where do the best ideas come from? And how does a corporation set the stage for innovative thinking?*

– At Bain, we actually recently studied in quite a bit of depth twenty-five companies around the world from STMicroelectronics, to RE/MAX in real estate, to UPS in package delivery, to Li and Fung in logistics, that had grown much faster than their industry growth rate over ten years and that used new ventures and these adjacency moves around their core successfully in the process. The study involved cooperation with the company and extensive interviews with the chief executive officers, and we found that in over 80% of these most successful growth companies that the best new growth ideas came from deeper understanding and analysis of their core customers rather than from searching for hot markets from corporate idea sessions or the search for dramatic new technologies.

TRACK 10

– *If you were a CEO reviewing a proposal to fund a new business, what would you like to see in the business plan?*

– One: Have the key assumptions been actually tested in the field or piloted? Second would be: Is this new venture potentially a distraction from the core? Or if successful, does it strengthen and reinforce the core business? In which case, it would be more valuable. A third question would be: Does the venture actually help me with my core customers? And, if not, then it would be more suspect. And finally is: How much management complexity does it really add? We find that businesses and managers consistently underestimate the complexity of new growth initiatives if they are not part of a repeatable formula that they have been implementing over and over for a number of years.

- Chris Zook, thank you very much for speaking with us today.
- My pleasure, thank you.

CHAPTER 3

ACTIVITY 9 | TRACK 11

- We're speaking today with Bain & Company consultant and author Chris Zook. Thanks for joining us again.
- Great, thank you.

TRACK 12

- In your writing and consulting career, your focus has been on helping companies achieve profitable growth. What are the risks associated with growing a business?
- There are three categories of risk that surround this. The first is prematurely abandoning the core business, like Anheuser-Busch did from beer going into salty snacks, or K-Mart did by moving into a range of retail businesses, ranging from Czechoslovakian department stores to sporting goods chains at a time it was just about to encounter a blistering attack by Wal-Mart, one of the most difficult competitors on earth.

Second category of risk is actually not understanding your own core in enough detail and jumping into unrelated businesses based on a false premise or assumption. Examples of this might be what Vivendi did in entertainment, for example, or perhaps what WorldCom did.

The third risk category is failing to manage the risk of moving into new areas like Mattel did when it purchased the Learning Company for three billion dollars a couple of years ago and ended up having to sell it, two years later, for a price of zero.

TRACK 13

- Expanding into international markets is a common growth strategy for large corporations. What risks do you associate with this type of growth?
- In looking at companies that have done this well, we find that the most successful companies at geographic expansion like Egon, the Dutch company in insurance, or Vodafone in cellular, or Dell in computers, or Starbucks in food, have had a repeatable model that they've learned to adapt to local conditions after perfecting it in their home market. In those cases, they have relied heavily upon local managers, indigenous managers, as opposed to people from the home office, but they have done so without changing the models so much that they lose what made the company successful in the first place.

Another great example of geographic expansion is Olam. This is a Singapore-based company that is one and a half billion dollars in size from zero in 1988 and is in the business of taking agricultural commodities out of difficult African environments, such as the Ivory Coast for cashews or Burkina Faso for sesame seeds, and selling them to food processors like Mars or Nestle. And when you look at its model for expansion, you notice a couple of things. One: an extraordinarily detailed knowledge of local conditions to adapt their model. For example, Olam requires its managers in the top three levels to have lived in one of those agricultural areas in Africa for at least two and a half years. But in addition, Olam has a clear, repeatable formula for moving into new geographies or deciding to move into new product businesses. The development of this type of repeatable formula is a distinct skill and transporting it is an even more unique skill. Perhaps this is why open economies like Holland and the Dutch companies, or companies based in Hong Kong, like Li and Fung, have proved, in many cases, to be the best.

TRACK 14

- One thing we haven't touched on — the strategy of playing it safe. Are there any risks associated with not taking chances?
- I think that playing it safe is never totally safe, and playing it safe sometimes is not safe at all. The record shows there really is no status quo strategy in business. At all times, you're either gaining market share or you are losing market share.

Companies like Polaroid that denied the rate of change in the photography business ended up bankrupt. Most of these revolutions could have been seen five years or more in advance. For example, there was very strong data as early as 1977 that the percentage of consumers that were interested in instant chemical photography was starting to decline rapidly. And the Polaroid senior management team was certainly one of the first to be tracking digital technology. But they were never able to take their many assets of customer base, very well-known brand, optical technology distribution network to customers and leverage it using the new digital technology. I think the best way to recognize these long-term problems is to recognize these long-term problems *early* and to evolve in an organized way through adjacency expansion.

- Chris Zook, I'd like to thank you for sharing your insights with us again.
- You're welcome, my pleasure.

CHAPTER 4

ACTIVITY 9 | TRACK 15

- *Joining us today by telephone to discuss corporate leadership during periods of change is consultant and author Maya Hu-Chan.*
- *Maya Hu-Chan is co-author of Global Leadership: The Next Generation. She is an executive coach and a cross-cultural consultant, who specializes in working with multinational corporations and executives on leadership issues. Maya Hu-Chan, thanks for joining us today.*
- *Thank you for having me.*

TRACK 16

- *Maya Hu-Chan, you've worked with countless business leaders who have brought about change in their organizations. Why is change so difficult and what must a leader do to introduce real change?*
- *Well it's not an easy task to introduce change and manage change in any organization, and people tend to resist change especially when they don't know what's going to happen to them. And they're afraid that they will lose something important and valuable as a result of the change.*

So what must a leader do to successfully manage change? First of all you must be a role model. Embrace and support the change process, and make a special effort to increase communication whenever changes affect your work group. And leaders also need to share as much information as they can with people during the process of organizational transition. Identify the opportunities for change, and tell people what you think the change will mean for them. And also genuinely listen to your employees' concerns and comments. Encourage them to ask questions. Involve other people in the process to minimize the resistance and make the transition more smoothly.

- *Maya Hu-Chan, I'd like to thank you for speaking with us today.*
- *You're very welcome. My pleasure.*

CHAPTER 5

ACTIVITY 9 | TRACK 17

- *We're speaking today with consultant and author Maya Hu-Chan. Thank you for joining us again.*
- *Thank you. It's good to be here.*

TRACK 18

- *Maya Hu-Chan, in your book Global Leadership: The Next Generation you report your findings from interviews with 200 high-potential, mid-level managers from over 120 multinational corporations. In exploring the views of these individuals, what did you learn about the importance of global leadership in the business world today?*
- *Well there are a couple different themes that came out of the interview and the research to make global leadership of interest today. First of all is the changing business environment. Now in the past, the debate used to be, can you be a successful leader in one function and move to another function? And then the question became can you be a successful leader in one industry and move to another industry? Today the question is can you be a successful leader in one country, and fly to another country, and be successful in that country? Secondly, in order to stay competitive, companies must develop strong global leaders. However, most multi-national companies are lacking strong, effective global leaders and the lack of global leaders will be a barrier to global growth. And that's why global leadership development has become such a strong interest today for global companies.*

TRACK 19

- *What are the key challenges facing today's global leaders?*
- *In addition to change management as one of the key challenges, the global leaders that we interviewed for the book also identified a few other key challenges. The first one is role management.*

Leadership and other functions change and combine with the organization at all levels, so leaders are no longer telling, instead, they're facilitating. One leader had told me that I see a much more participatory, collaborative management style. And there will be greater alignment. The CEO and CFO will be almost the same. And another leader told me that I have to lead in a more consultative way. Other leaders have agreed on that.

The second area people have identified as one of the key challenges is global management. Both the work force and clientele become increasingly diverse with widely different perspectives, expectations, needs, and contributions. So the key here is to take the best model from every country and create better models. And leaders will have to consider local and global factors for every decision they make.

Number three is youth management. Workers at all levels, including leaders, become much younger on average and more educated with a completely different set of values, motivations, and ambitions than their earlier, older counterparts.

Number four is technology management. As the uses and usage of real time data and communications systems continue to grow, leaders really need to learn how to keep up with the technological changes and invest in technology.

Number five is time and resource management. Leaders are expected to do more with less. And, finally, virtual management is a big challenge for global leaders as physical distances between colleagues and clients spread out around the world where many people rarely get to meet face to face, if at all. Employees and operations will also be much more mobile, so remote teams will be the key for large organizations. In the future, people will work with people we seldom see and so the big challenge here will be now to motivate people without seeing them so often.

TRACK 20

- *What are some of the emerging characteristics of effective global leaders that you've identified in your work?*
- There are five emerging characteristics for effective global leaders that we have identified in the *Global Leadership* book, and the first one being thinking globally. Global leaders must have a deep understanding of the cultural differences, especially with the countries that they're doing business with; and they need to have a deep understanding of communication technology, global and regional markets, as well as the world economy.

And secondly is to appreciate cultural diversity. The leaders need to prepare and empower others to appreciate diversity and also have a good understanding of the cultural differences, and they need to be a good listener.

They need to listen openly and embrace ideas and perspectives. They also need to know the difference between *compliance* and *collaboration* and really have a good understanding of the generational differences. So when we're talking about appreciating cultural diversity, we're talking about different ideas, perspectives, and generational differences, as well as cultural differences.

Number three is developing technological savvy. Leaders need to understand how technology can benefit their organizations and build and retain a network of technically competent people and increase productivity through the effective management and use of technology.

Number four, building partnerships and alliances. Now internally and externally they need to work on both sides. Internally they need to partner with direct reports, their co-workers, their managers and also build strong, effective teams. Externally they need to create networks outside of the organization and they need to partner with customers, suppliers, as well as their competitors.

Number five is sharing leadership. Executive leadership is moving away from a singular role as evidenced in the rise of co-CEOs. So future leaders need to create an environment where all leaders can make more effective decisions through collaboration rather than singular efforts. So shared leadership combines the best of individual abilities as one solution to a growing business.

- *Maya Hu-Chan, I'd like to thank you for sharing your insights with us today.*
- You're very welcome. My pleasure.

Glossary

acquire (v.) to obtain a new possession: *If our company is acquired by a larger firm, we may lose our jobs.* (Ch. 1)

acquisition (n.) something recently acquired or obtained: *One of our most recent acquisitions is the restaurant chain that we purchased at the beginning of the year.* (Ch. 1)

adverse (adj.) opposing one's interests or wishes: *The adverse effects of Mr. Doyle's departure will be felt for months to come in our small department.* (Ch. 3)

align (v.) to adjust or arrange to be parallel: *If you don't align your interests with ours, you will not be able to remain competitive for long.* (Ch. 4)

alliance (n.) mutually beneficial partnership or affiliation: *Dexter Enterprises entered into a strategic alliance with its chief supplier in an effort to better control costs.* (Ch. 1)

ante up (v.) to pay one's share: *Every company involved in the investment fraud will be forced to ante up in order to reimburse the victims of their fraudulent behavior.* (Ch. 2)

articulate (v.) to put into words: *Sheila tried to tell her boss about the difficulties she was having in her personal life, but she found it extremely difficult to articulate them.* (Ch. 4)

at the helm (expression) to be in charge or command: *Walter Redmond was named president and CEO of the company in 1974, and he's been at the helm ever since.* (Ch. 5)

attribute (n.) a characteristic or quality associated with a person, group, or place: *Some people believe that the attributes of successful CEOs are not all that different from those of accomplished military leaders.* (Ch. 5)

belittle (v.) to make remarks or comments that diminish something or suggest that something is unimportant: *After working for four days straight on the project and feeling he had finally accomplished something, Daniel's boss belittled his efforts by saying that he could have done as much in an afternoon.* (Ch. 5)

boundary (n.) a line indicating the limit of a territory or area: *Pixar stretches the boundaries of digital animation with each new film it produces.* (Ch. 1)

buy-in (n.) support for a new idea or project by individuals involved in implementation and use of the final product: *Everyone from the secretaries to the CEO was asked for opinions on preventing conflicts and delays during the transition period, so there was significant buy-in throughout the organization.* (Ch. 2)

cannibalize (v.) to steal away an essential customer base from an existing entity in creating or developing another entity or product: *Companies must be careful when marketing a new product that it will not cannibalize sales of their existing products.* (Ch. 2)

capability (n.) ability: *We decided to give the contract to DigiServ because of their capabilities with regard to day-to-day IT support and Website maintenance.* (Ch. 1)

capacity (n.) maximum space available for containing or supporting something: *We plan to expand our warehouse capacity in preparation for the new product line.* (Ch. 1)

change agent (n.) someone or something that helps bring about change or different ways of doing things at an organization: *April is a natural change agent because she always seeks to do things better, more efficiently, with the latest technology, and knows how to think "outside the box."* (Ch. 4)

chaotic (adj.) confused, disorganized, uncontrolled, and/or unpredictable to an extreme degree: *The business climate today is chaotic, forcing organizations to continuously reinvent themselves.* (Ch. 2)

charisma (n.) a personal quality that gives an individual influence or authority over large numbers of people: *Bill's natural charisma was apparent in the way that we turned to him for key decisions without anyone ever suggesting that he was in charge.* (Ch. 5)

coalition (n.) a group of people united for a common purpose: *Our city government is forming a coalition of interested citizens and scientific experts to investigate and eventually, we hope, solve some of our persistent environmental problems.* (Ch. 4)

coincidental (adj.) occurring at the same time but without related causes: *Many people wondered if it was coincidental that the building burned down a month after the owner had purchased fire insurance.* (Ch. 1)

collaborative network (n.) a group of individuals or teams from different departments, organizations, or professions that work toward a common goal: *The pharmaceutical company made progress on its cancer treatment drugs through the efforts of a collaborative network of doctors, researchers, patients, and their families.* (Ch. 2)

command and control (n. phrase) the part of an organization or group where the power resides and where the important decisions are made: *Ray has a very collaborative working relationship with his staff, but when necessary he quickly shifts to command and control and takes charge of the situation.* (Ch. 4)

compatibility (n.) the ability to work or exist with another in harmony: *Brian feels a high level of compatibility with the values and goals of the firm. For this reason, he's hopeful that he will be offered a position there.* (Ch. 1)

complacent (adj.) pleased or satisfied with one's situation, achievements, etc.: *Every year, during his annual address to the employees, our president challenges us not to become complacent about being number one in our industry. "Only by staying hungry," he always says, "can we stay number 1."* (Ch. 5)

conglomerate (n.) a corporation made up of many companies in a variety of industries: *For many years, Shebco was the largest conglomerate on the continent with interests in oil, detergents, food products, and construction.* (Ch. 1)

Glossary

contingent (adj.; often followed by *on* or *upon*) dependent for existence or occurrence on some circumstance or event: The sale of the house was contingent upon the completion of all the repairs that the buyer requested. (Ch. 3)

core (n.; also used as adj.) the central or most essential part of something: Sanford Industries sold several of its business units last year so that it could focus its efforts on improving performance of its core business. (Ch. 1)

courage (n.) internal strength to perform in difficult or dangerous circumstances: Though small in stature, Tom has the courage of a lion and always does well in negotiations. (Ch. 1)

cultivate (v.) to promote the healthy growth of something through hard work and attention (often used in the context of plants or crops): Henry cultivated many personal relationships during his first few years out of university. These relationships later opened up several interesting doors for him. (Ch. 4)

cyber (adj. / prefix) relating to computers or the information age: Our computer network is extremely vulnerable to cyber attacks because of insufficient firewall protection. (Ch. 3)

devise (v.) to invent or create from existing principles: Last year, Mr. Bates devised a way to increase production without increasing operating expenses. (Ch. 1)

dilemma (n.) situation requiring a choice between equally undesirable alternatives: The vice president of human resources faced an unpleasant dilemma: to force a loyal employee of 25 years with the company into retirement or demote him to a junior position. (Ch. 5)

diversify (v.) to distribute risk among a variety of investments or industries in order to limit losses from the failure of one market or industry: Because Jennifer diversified her investments, she did not suffer substantial losses when the dot-com companies in her portfolio lost most of their value. (Ch. 3)

divest (v.) to sell off: The large media conglomerate divested itself of its holdings in the music business. (Ch. 1)

don't get me wrong (expression) do not misunderstand me; often used to soften a comment that may sound very critical: Don't get me wrong, I like your idea, but I don't think we can accomplish it within our budget. (Ch. 4)

downside (n.) negative or disadvantageous aspect(s) of a situation: If John had spent more time contemplating the downside of the investment deal, he would not have been surprised by the losses. (Ch. 3)

druggist (n.) someone who sells or distributes prescription medication: The druggist at our local pharmacy is an expert on prescription medicines, but he is also familiar with natural remedies. (Ch. 1)

due diligence (n.) research that is performed to protect an individual or property in a business transaction: Both parties agreed on the terms of the deal. All that remained was the

completion of the due diligence, which was being conducted by the auditors of both organizations. (Ch. 1)

e-mail worm (n.) malicious programs, sometimes called "viruses," that copy themselves from one computer to another via e-mail systems: My computer has been infected by an e-mail worm that is now sending copies of itself to everyone in my address book. (Ch. 3)

empower (v.) to give authority or power to someone: Doug assured his supervisor that by providing him with additional staff for the duration of the project she had empowered him to get the job done. (Ch. 5)

envision (v.) conceive, imagine, or create a mental image of something: The CEO challenged us to envision a new future for the company — he encouraged us to "dream big." (Ch. 4)

equation (n.) an expression or a proposition of a complex set of variables or factors: We had not factored the potential for weather delays into the equation; as a result, we missed our deadline by two weeks. (Ch. 3)

ethical (adj.) being in accordance with the rules or standards for honest, morally correct conduct or behavior: The CEO asked his accountants to alter the company records for years before one of them eventually reported his unethical behavior to a newspaper. (Ch. 5)

fall into the trap of (v. phrase) to unknowingly become confined in an undesirable position or circumstance: If you do not define your team's goals and monitor progress at all stages of the project, you may fall into the trap of producing something that does not satisfy the company's needs. (Ch. 2)

find one's way (v. phrase) to discover the best path, over time, and eventually make progress: Without the guidance and advice of my uncle, I think it would have taken me years to find my way in such a large organization. (Ch. 5)

floor of the stock exchange (n. phrase) physical location where buyers and sellers of equity shares meet and transact business: My stockbroker was once a trader, but he prefers a quiet office to the noisy, hectic floor of the stock exchange. (Ch. 1)

forge (v.) a process to create something that requires great effort: After many years and many attempts to sign a treaty, the two countries were finally able to forge a formal alliance. (Ch. 1)

foster (v.) to promote the development of; to encourage: The president of our company fosters an environment in which the opinions of all employees are valued. He regularly solicits feedback from employees at all levels of the organization. (Ch. 2)

get in the way of (v. phrase) act as a barrier: In large companies, administrative red tape frequently gets in the way of making changes quickly. (Ch. 2)

get one's feet wet (v. phrase) to take a first step in a new endeavor: Peter Watson's internship at the newspaper will allow him to get his feet wet in the field of journalism. (Ch. 2)

gobble (up) (v.) to eat hurriedly by consuming large pieces: GE has gobbled up dozens of small companies over the years. (Ch. 2)

Glossary

groom (v.) to prepare or ready for a specific objective: *Gerald's parents have been trying to groom him to take over the family accounting business since he first started showing an interest in math at the age of four.* (Ch. 5)

group life insurance (n.) a master policy, typically issued to an employer for the benefits of employees, which will pay a specified sum to beneficiaries upon the death of the insured individuals: *When Betsy's husband died, she received a significant sum of money from the group life insurance policy he had subscribed to through his employer.* (Ch. 3)

have their work cut out for them (v. phrase) to face considerable challenges in achieving a goal or completing a project: *The team is made up of highly-skilled, motivated employees, but they will, nevertheless, have their work cut out for them to complete the project on time.* (Ch. 4)

implementation (n.) the act of putting something into effect: *Part of the implementation plan is to train everyone on the new software before it becomes a required tool of the company.* (Ch. 3)

infringe (v.) violate rights or property: *It's a great product, but we couldn't possibly sell it; it's so similar to our competitor's product that it would surely infringe on their copyright.* (Ch. 3)

initiative (n.) an important plan or project: *The company was discussing several initiatives designed to improve revenue growth. However, it was unclear which of them had the most support among the members of the executive committee.* (Ch. 1)

innovate (v.) to change existing conditions by introducing something new: *Because the company seeks to offer new and exciting products to its customers every year, the product development group is expected to innovate constantly.* (Ch. 2)

innovation (n.) a new item, process, or concept: *Introducing a process or technology into one's work flow can be thought of as a form of innovation.* (Ch. 2)

innovative (adj.) characterized by or producing new concepts: *The design team's innovative approach led to some unexpected breakthroughs.* (Ch. 2)

instill (v.) to infuse slowly or gradually into the mind or feelings of someone: *Mr. Gibson's rousing speech instilled a sense of purpose and determination in all of us after a difficult year at the company.* (Ch. 5)

institutionalize (v.) to incorporate formally into an organization's internal system: *Rather than simply set policies, the new CEO has proposed procedures and organizational systems to fully institutionalize the changes she wants implemented.* (Ch. 4)

intangible (adj.) incapable of being perceived by the sense of touch: *We were more concerned about threats to our intangible assets — our reputation and our brand identity — than to anything else.* (Ch. 3)

integrity (n.) the quality of maintaining high moral standards and honesty: *The company's reputation for honesty and integrity suffered considerably during the government investigation of its*

accounting practices. (Ch. 1)

intellectual property (n.) intangible assets that consist of knowledge and ideas: *The movie studios are desperately trying to protect their intellectual property against illegal copying and distribution.* (Ch. 3)

internal audit (n.) accounting or finance personnel that examine and verify financial records of a firm to guarantee accuracy: *Every year, our internal audit department reviews the accounting records of each and every department to verify proper use of funds and accurate reporting.* (Ch. 3)

irrelevant (adj.) having no connection to a particular issue: *Steve's comments were irrelevant to the discussion, so we simply ignored his e-mail.* (Ch. 4)

larger-than-life (adj.) very impressive or memorable, especially in appearance or character: *Ms. Collins comes across a bit larger-than-life — she speaks, laughs, and even sneezes more loudly and impressively than anyone else in the building. Many of her colleagues are intimidated by her.* (Ch. 5)

lay the blame (v. phrase) attribute the fault or error: *The only thing Ben is better at than making mistakes is finding somewhere else to lay the blame. I don't think I've ever seen him admit to one of his blunders.* (Ch. 5)

legal counsel (n.) advisors on aspects and rules of the law; typically, practicing lawyers and attorneys: *In order to prevent contractual disputes, I always consult with our company's legal counsel before signing any new agreements.* (Ch. 3)

living on borrowed time (v. phrase) temporarily postponing or avoiding the consequences of a current situation during a time of uncertainty: *The start-up firm lived on borrowed time for nearly a year after its founder resigned. The firm eventually dissolved because an adequate replacement could not be found.* (Ch. 2)

lucrative (adj.) profitable: *Brad left the teaching profession to pursue more lucrative work.* (Ch. 2)

mandate (n.) an authoritative command or order: *The mandate to limit all travel until the end of the year was issued by our president last week. Many employees rushed to cancel previously booked trips.* (Ch. 4)

marriage broker (n.) an individual who profits from bringing two parties together in marriage or partnership: *Phil Lebovsky is known on Wall Street as a successful marriage broker who has guided many corporations through difficult merger negotiations.* (Ch. 1)

merge (v.) to combine; to blend; to unite: *The owners of the two local firms knew both their businesses would suffer if they continued to compete against each other, so they chose to merge their organizations.* (Ch. 1)

merger (n.) the act or process of two or more things combining into a single entity: *While the merger seemed smooth and easy on paper, many employees were laid off when the two companies joined.* (Ch. 1)

mode (n.) a way or style of functioning or performing: Our technical support team was in rescue mode for three days after a virus infected our company's central computer system. (Ch. 2)

negotiable instrument (n.) any instrument that can be traded on a financial market: Stocks and bonds are negotiable instruments. (Ch. 3)

newcomer (n.) a person who has recently arrived: All the newcomers will be invited to a breakfast and an orientation meeting with HR to welcome them to the company. (Ch. 5)

only a matter of time (expression) becoming apparent, clear, or obvious after a period of time: It was only a matter of time before the team realized that the deadlines were impossible to meet. (Ch. 5)

orchestrate (v.) to conduct, lead, or arrange: A good leader spends more time orchestrating the work of others than doing the work herself. (Ch. 5)

organism (n.) any living being: Whether we like it or not, our company behaves and performs much more like a living, breathing organism than a machine staffed by robots. (Ch. 4)

outmaneuver (v.) to demonstrate greater skill and/or strategy in a contest, game, or battle: The small independent film producer outmaneuvered the big Hollywood studios and secured the movie rights to the story of John Wayne's life. (Ch. 4)

parable (n.) a brief fictitious story meant to represent a moral or ethical principle: The presenter told the group a parable about a man, a camel, and a vast desert, but its relevance to our business was not immediately apparent. (Ch. 3)

patent (n.) legal protection restricting use or sales of an idea or creation: The company applied for a patent to protect its newest invention. (Ch. 1)

perpetual (adj.) occurring regularly or continuing forever: Marianne seems to be in a perpetual state of stress, and never looks relaxed. (Ch. 4)

personal hardship (n.) a difficult situation that causes suffering and/or great inconvenience: Despite the personal hardship of having to work nights and most weekends for months in order to finish the project, Reggie never complained or behaved ungraciously toward his colleagues. (Ch. 5)

perspective (n.) point of view: Andrea was asked to join the team because of her unique perspective on the Italian youth market. (Ch. 5)

phone it in (expression) not take the job seriously and simply telephone your contribution to the recipient: "Did Scott do what you needed him to do on the design?" "Are you kidding? He doesn't care about anything anymore. The guy's phoning it in these days." (Ch. 5)

pick your battles (v. phrase) strategically choose the occasions when you argue with a particular person or group: Pick your battles wisely, or you will spend unnecessary energy and time on issues that are not important or cannot be changed. (Ch. 4)

place a bet (v. phrase) make a wager or take a risk: If I had to place a bet as to when a final decision would be made, I would put my money on "never." Our department manager is just not a decisive person. (Ch. 3)

premium (n.) amount paid monthly or yearly for an insurance policy: Gary's auto insurance premiums rose significantly after his car accident. (Ch. 3)

preside (over) (v.) to exercise control of: The Chairman of the Board presided over the meeting of the shareholders. (Ch. 1)

put one's thoughts on paper (v. phrase) document an idea or concept: When Mr. Barton asked me to put my thoughts on paper, I had no idea that he was going to present them to the Board. (Ch. 3)

quiescent (adj.) still; at rest; quiet: Because it was a national holiday, the usually busy and noisy streets of the business district were quiescent today. (Ch. 1)

reap (v.) to gather; to harvest; to get as a return: We converted all our computers to the Linux operating system three years ago, and we're still reaping the benefits of that decision. (Ch. 3)

retrench (v.) to cut down, reduce, and economize: The manufacturing firm announced that it planned to retrench in the new year to offset three straight years of declining production. (Ch. 2)

reverberate (v.) to echo many times: The effects of the company's sale will reverberate among its employees for years to come. (Ch. 5)

scrutiny (n.) a close examination or investigation: Everything I do passes under the scrutiny of my boss — he's a real micro-manager. (Ch. 3)

seniority (n.) priority or status obtained as a result of a person's length of service: When the company moved into the new building, first choice of offices went to the executives and second choice to the employees with seniority. (Ch. 2)

show up (v. phrase) to put in an appearance; arrive: We know that Marina doesn't particularly care about the work we're doing, but the fact that she didn't even show up for the meeting demonstrated a real lack of respect for all of us. (Ch. 5)

shut off (v. phrase) to turn or close off: Before you work on the sink, you'd better shut off the water. (Ch. 3)

sound (adj.) sensible; solid; well thought out: Because he decides nothing hastily, most of Barry's decisions are quite sound. (Ch. 5)

spread the word (v. phrase) to broadly share news or information: The CEO asked the department heads to spread the word about the salary freeze to all employees. (Ch. 2)

stagnation (n.; from **stagnate** (v.)) a state of having ceased to develop, grow, or progress: There is no turn-over at our company, so there are no new ideas. The same twenty people have been making the decisions for fifteen years. We are in a period of total stagnation. (Ch. 4)

Glossary

stake (n.; often plural) something that is wagered in a game, race, or contest: *Although the stakes are high, the potential pay-off is significant, so many investors are willing to take the chance.* (Ch. 3)

stiff resistance (n. phrase) a strong, opposing force: *Despite stiff resistance from upper management, members of the executive board enforced the policy of profit sharing for all employees with three years or more of service with the company.* (Ch. 2)

suited (to) (adj.) appropriate; apt; fitting: *Bill's role at the company is well suited to his personality. He enjoys working under pressure, he likes to work independently, and he has little patience for anyone who can't keep up with him.* (Ch. 4)

sustained (adj. from **sustain** (v.)) supported or held up; ongoing: *The company wasn't simply looking for growth this year. It was seeking sustained growth over a 5-year period.* (Ch. 1)

swap (v.) to trade or exchange one thing for another: *Because Sam had little need of software for graphics and art manipulation, he swapped his Macintosh for a PC.* (Ch. 2)

tangible (adj.) capable of being touched: *Your promise means nothing to me. I want a tangible guarantee.* (Ch. 3)

the system is stacked against someone (expression) when the conditions, opinions, and standards in an organization are disadvantageous for a person: *I have tried many times to change this situation, but the system is stacked against me, and I don't think my voice will ever be heard.* (Ch. 4)

tout (v. rhymes with out) to describe with great enthusiasm: *The salesman touted the newest model washing machine as "state of the art."* (Ch. 2)

track record (n.) history or pattern of previous performance: *Without any real track record in his position, it was unreasonable for Greg to expect a promotion.* (Ch. 2)

turn them loose (v. phrase) to lift restrictions or limits: *After making it clear to her employees what the end results must be, Karen decided to turn them loose to see how they would organize themselves and the project.* (Ch. 5)

uncertainty (n.) the condition of not being sure or convinced about something: *The uncertainty of stock prices is a commonly accepted risk for those who invest in the stock market.* (Ch. 3)

upside (n.) advantageous aspect(s) of a situation: *While many people fear job losses from the reorganization of the company, the upside is that some employees will transition to jobs that better fit their skills and interests.* (Ch. 3)

venture (n.) business enterprise involving great risk, but with potential for great gain: *Factors such as fluctuations in the stock market and consumer demand will determine the degree of success of the new venture.* (Ch. 2)

violation (n.) an act that disregards or is in conflict with a legal agreement or right: *The Environmental Protection Agency reduces penalties for small businesses that voluntarily report any violations to environmental regulators.* (Ch. 2)

vision (n.) the act or power to anticipate what will or may happen: *Mr. Perkins had the vision to see that in ten years his company's products would be obsolete. For this reason, he began a company-wide modernization effort this year.* (Ch. 4)

visionary (n.) a person with a talent for foreseeing future developments: *We chose Melissa Turner because she has the necessary technical skills and is a visionary in the field of technology. We're counting on her to anticipate our future needs.* (Ch. 4)

vivid (adj.) bright, intense, and full of life: *My friend the adventure traveler was only too happy to share the story of his encounter with the crocodile in vivid detail.* (Ch. 4)

volatility (n.) a quality of sudden changeability or transience: *Due to the great volatility in the stock market in recent years, I have shifted many of my assets to low-risk instruments.* (Ch. 3)

vulnerability (n.) capability or quality of being easily wounded or hurt: *The company's vulnerability to a hostile takeover was of great concern to its board of directors.* (Ch. 3)

win (over) (v.) to persuade and ultimately to gain a person's support and enthusiasm: *We had been telling Bruce how much he would love snow-boarding for years, but he was just afraid to give it a try. Last year, our entire group of friends went on a snow-boarding trip — even Bruce. He liked it a lot. I think we've finally won him over.* (Ch. 4)

workers' compensation (n.) insurance benefits to be paid to employees who are injured while doing company business: *Because Rita fell and broke her leg at the office, the company's workers' compensation policy is covering her hospital bills, as well as paying her salary until she can return to work.* (Ch. 3)

work its way through the ranks (v. phrase) moving through all levels of an organization: *News of the CFO's resignation worked its way through the ranks in less than an hour, well before the official announcement to all employees was made.* (Ch. 4)