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Recent Research

On schools for elder leaders, Japanese decision making, innovation inertia, and more.

by Des Dearlove and
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AARP University

Rosabeth Moss Kanter (rkanter@hbs.edu), Rakesh Khurana (rkhurana@hbs.edu), and Nitin Nohria (nnohria@hbs.edu), “Moving Higher Education to Its Next Stage: A New Set of Societal Challenges, A New Stage of Life, and a Call to Action for Universities,” Harvard Business School working paper no. 06-021, www.hbs.edu/research/facpubs/workingpapers/papers0506.html

A survey of 50- to 70-year-old Americans found that more than half wanted, after their primary career ended, to dedicate their time to national or community service. But for most senior citizens, there are few opportunities to do so, and their years of experience are ignored and rejected by societies enamored with youth. A plan for rectifying this situation is offered by Harvard Business School’s Rosabeth Moss Kanter, the Ernest L. Arbuckle Professor of Business Administration; Rakesh Khurana, an associate professor of business administration; and Nitin Nohria, the Richard P. Chapman Professor of Business Administration.

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The authors call for a new level of higher education for people in the third stage of life. As a development in education, such a change could potentially be compared to the creation of the modern graduate and professional school in the last quarter of the 19th century. These post-university schools for seniors would provide a multidisciplinary, action-focused curriculum to equip retired business, political, legal, social, and scientific workers with the skills required to tackle wide-ranging intractable international problems. These think tank-styled institutions would endeavor to open fresh opportunities for leadership to the growing senior population by serving as an incubator for projects, programs, enterprises, and foundations targeted at tackling global ills. To prove that this is more than mere theorizing, a one-year pilot advanced leadership institute, based on the authors' ideas, is slated to begin at Harvard in fall 2007.

The Harvard trio believe there is "an emergent problem set" made up of issues such as global health and poverty, basic education, and the degradation of the environment that cross traditional professional divides. Politics, business, science,

the law, and other areas of expertise offer only partial responses to these problems. As a result, there is a scarcity of concepts, frameworks, research, and models that integrate knowledge among different fields. Organizations like the new advanced leadership institute would tap the experience and skills of senior leaders to begin to design the multidimensional solutions that are sorely lacking, the authors argue.

A possible beneficial side effect of involving the senior population in socially productive activities, the authors add, is that it should enhance their health and happiness — and thus reduce health-care and Social Security costs.

Signature Moments

Lynda Gratton (lgratton@london.edu) and Sumantra Ghoshal, "Signing Up for Competitive Advantage: How Signature Processes Beat Best Practice," Advanced Institute of Management Research working paper, available from www.aimresearch.org/forth_competitive.html

At the Royal Bank of Scotland, the fifth-largest bank in the world by

market capitalization, the top 10 managers meet with the CEO every morning between 9:30 and 10:30 A.M. Those who cannot be physically present at the bank's Edinburgh headquarters join in via videoconference. The meeting has no agenda; it simply covers the issues highest on the minds of the management team. This morning meeting has been a tradition in the bank since its founding in 1727.

This is an example of what Lynda Gratton, associate professor of management practice at London Business School, and the late Sumantra Ghoshal labeled a "signature process" — defined as a process that has "evolved internally from the values and aspirations of executives." Professors Gratton and Ghoshal argued that such idiosyncratic and unique processes create, for many companies, a competitive advantage.

Their research looked at companies that recorded superior performance between 1997 and 2002. The authors eliminated companies whose performance had been aided by factors such as a monopoly, extensive regulation, or heavy use of patents. They identified eight companies to study in detail; they then conducted extensive interviews at each, involving 20 to 30 executives as well as the CEO.

The signature processes they identified at these companies are quirky and individualistic. They also fly in the face of conventional wisdom. After all, tying up top management in a daily meeting as the Royal Bank does might appear to be a poor use of resources. But Professors Gratton and Ghoshal argued that such processes are so deeply embedded in the organization's culture that they "serve as one of the crucial links

between the processes of the organization and the vision, values, and behaviours of top management, and the processes are imbued with energy and passion.”

Another example is the frequent weekend restructurings at Nokia. Employees return to work on Monday to find that they are in new business groups — though working relationships often remain the same. This tradition appears dramatic and potentially counter-productive. Not so, said the authors. They observed that Nokia’s success has to a large extent been built on the use of structural modularity in its technological development. This means using common platforms and standardization to develop new products based on existing products. Nokia applies the same logic to its organization design: It places workers in modular teams that can be seamlessly plugged into any part of the organization to meet changing corporate and customer needs.

The chief signature process at energy conglomerate BP is the support that business unit heads are expected to give to their peers in other departments, especially those who are underperforming. A significant portion of the bonuses earned by heads of successful business units is dependent on their improving the results of weaker segments. Toyota’s signature process — lean production, emphasizing adaptability and eliminating waste — was ultimately transformed into the automobile industry’s best practice.

Identifying and adopting best practices is a critical managerial task. But Professors Gratton and Ghoshal concluded that potentially just as important is the job of rediscovering an organization’s heritage, core values, and internal operations

— in other words, the signature processes — about which people are most passionate. The authors admitted that signature processes can be “ephemeral,” but they are also indispensable. They create a link between a company’s goals and its values; that connection, in turn, energizes the company and provides meaning for its culture.

Lessons of Japan

Kimio Kase (kkase@iese.edu), Hernán Riquelme (hernan.riquelme@rmit.edu.au), Francisco Sáez, and Katsuyoshi Kutsuwada (katz.kutsuwada@gmail.com), “Transformational CEOs,” *Nanyang Business Review*, vol. 4, no. 1, www.educatisgsm.de/fileadmin/files/Publikationen/Transformational_CEOs.pdf

The remarkable rise of the Japanese economy in the 1970s and its subsequent stagnation in the 1990s have been well documented. Along the way, Japanese management lessons were first lauded and then largely discarded by Western academics. But today, some Japanese executives are attracting renewed attention for the strategic techniques they use to thrive despite the bumpy business environment in Japan.

Kimio Kase, associate professor at the Spanish business school IESE and Educatis University in Switzerland; Professor Hernán Riquelme, of RMIT University in Australia; Francisco Sáez, professor at the University of Castilla–La Mancha in Spain; and Katsuyoshi Kutsuwada, an executive at Sony Corporation, Japan, studied the CEOs of five successful Japanese companies. In examining the activities of Norio Ohga of Sony; Masamoto Yashiro of

Shinsei Bank (the reincarnation of Long-Term Credit Bank of Japan Ltd., which collapsed in 1998); Carlos Ghosn, who turned around Nissan Motor Company; Masao Ogura of Yamato Transport Company, which pioneered courier services in Japan; and Chihiro Kanagawa of Shin-Etsu Chemical Company, the authors found that these executives principally relied upon two distinct mental models for making decisions.

The first is based on something the authors call a proto-image of the firm (PIF), which is a strong, if sometimes abstract, image or vision of what the company stands for. Norio Ohga, CEO of Sony from 1982 to 1994, used a proto-image to move the company forward in an unwavering direction after he took over from the original entrepreneurial founders. The proto-image likened the company to the Chinese character *san*, which means to shine dazzlingly like the sun. It emphasized Sony’s uniqueness; at new product planning meetings, Mr. Ohga insisted that all Sony products have extra qualities that would make them worthy of the company’s logo.

The alternative mental model identified by the authors is the profit-arithmetic (PA) approach, driven by short-term profitability. The exemplar is Chihiro Kanagawa, the current CEO of Shin-Etsu Chemical Company. Mr. Kanagawa is focused solely on identifying those operations and activities that will generate profits. He is concerned with day-to-day operations — controlling costs and prioritizing projects — rather than with long-term design.

Under Mr. Kanagawa, Shin-Etsu competes only in markets

Too often, supervisors screen out good ideas and champion only innovations that fit the agenda they've been promoting.

where it ranks high. For example, it is number one in the world in vinyl chloride; number two in optical fiber materials; and number three in silicone resins. Mr. Kanagawa also steers clear of businesses he doesn't understand. This has allowed him to avoid making some big mistakes. At the height of the Japanese property bubble in the early 1990s, for instance, he rejected a proposal to build and manage a hotel in Takefu in Fukui Prefecture. Shin-Etsu had no experience in lodging, so the hotel would have been second-rate at best — and not worth being involved in, Mr. Kanagawa believed. He later calculated that the company would have lost up to \$250 million on the deal.

Which of the two approaches — PIF or PA — works best? That depends on the industry, the authors say. Sectors in which the pace of technological change is very rapid, such as consumer electronics, favor PIF, with its long-term outlook and substantial investment in R&D. But in sectors in which technology changes more slowly and products are easily commoditized, such as chemicals, the PA approach is more effective.

The study also offers implica-

tions for CEO succession from within the firm. Identifying an internal chief executive candidate who shares the current CEO's PIF mental model is likely to be simpler than finding someone with the extraordinary, nuts-and-bolts business acumen required of a PA leader. "Though more abstract and conceptual," the authors write, "the PIF approach can be better codified and made explicit, and accordingly, it could be easier to find a successor inside the firm."

When Innovation Fails

Nicolaj Siggelkow (siggelkow@wharton.upenn.edu) and Jan W. Rivkin (jrivkin@hbs.edu), "When Exploration Backfires: Unintended Consequences of Multi-Level Organizational Search," www.hbs.edu/research/facpubs/workingpapers/papers0506.html

In 1999, the appliance maker Whirlpool announced an initiative to generate innovation "from everywhere and everyone" in the company. Faced with a stagnant market, Whirlpool managers wanted fresh ideas from the company's 68,000 employees. They got them. Before

long there were a host of pilot projects covering innovations as diverse as a line of exercise devices, a household maid service, and modular equipment for tailgate parties. Few employees came up with anything related to the company's core business. Before long, the company's executive committee started to rein in the more far-fetched ideas. Later, the CEO restricted projects even further, to existing brands.

Whirlpool's troubling experience with innovation highlights a phenomenon confirmed in research by Nicolaj Siggelkow, associate professor of management at the Wharton School of Business, and Jan W. Rivkin, associate professor of strategy at Harvard Business School. Simply put, encouraging workers throughout an organization to innovate can backfire. "Greater low-level exploration can suppress firm-level exploration and performance," conclude the authors.

This does not mean that canvassing employees for innovative inspiration is altogether a bad idea, but it needs to be practiced with a number of caveats. Rather than ask themselves, "Does decentralization boost innovation?" companies should ask, "When does decentral-

ization boost innovation?” The more closely the innovative ideas are related to the manager’s area of expertise, the more likely it is that the innovations will be useful.

The innovation process can be further improved if the organization ensures that department heads are not screening out good ideas for parochial reasons. Too often, lower-level supervisors will champion only concepts that fit the agenda they have been promoting. As a result, these managers increase corporate inertia rather than aid innovation. To change this pattern, the authors say, companies should give department managers incentives to prove that they have taken organization-wide considerations into account when evaluating the innovation ideas of their employees.

Maybe Workers Aren’t the Productivity Problem

Steve Mason (stephen.mason@cranfield.ac.uk), Tim Baines (t.s.baines@cranfield.ac.uk), and Mark Wilcox, “Manufacturing Systems and the Human Performance Fallacy,” Cranfield research paper, available at www.som.cranfield.ac.uk/som/

In 1911, Frederick Winslow Taylor published *The Principles of Scientific Management*, in which he argued that workers were the primary cause of manufacturing inefficiency — and that the time they spent on tasks should be strictly controlled by managers. Inefficient workers have

been blamed for low productivity ever since. But new research by three U.K.-based academics challenges this view.

Steve Mason, a researcher; Tim Baines, a senior lecturer; and Mark Wilcox, a lecturer, all at the Centre for Business Performance at Cranfield School of Management in the U.K., examined the impact of variations in worker performance on the efficiency of a manufacturing system.

Ten operations were monitored over a 12-week period across different worker shifts to determine how long it took workers to complete certain manual tasks on an automotive assembly line. The result was a data set of more than 200,000 instances of each manual task, which confirmed that each worker operated at a slightly different speed.

Then, using discrete event simulation — a type of computer modeling used in designing manufacturing systems — the researchers calculated the impact of these differences in worker performance as well as other factors, such as system breakdowns, on the overall output of the assembly line.

The results were revealing. System breakdowns alone reduced efficiency (measured by the system throughput capacity) by 12 percent. Compared with this, the variation in worker performance had very little impact, accounting for only a 1 percent difference in efficiency.

In other words, a modern assembly line is anything but the smooth operation predicted by

designers; its efficiency can be diminished by its complexity. As the authors note, “Observation of the simulations and the real world system showed that the normal mode of operation is not one of constant material flow, but rather intermittent flow, due to the presence of bottlenecks and random breakdowns.”

In fact, when the researchers compared the actual performance of the automobile assembly line to that predicted by the simulation, they found it was 15 percent less efficient than the simulation predicted. The most likely reason, they said, was that the computer model lacked important data about breakdowns and component shortages. “The real system was often directly observed in a ‘shutdown’ state,” the authors write. “These states, sometimes lasting for an entire shift, were predominantly caused either by machine breakdowns or shortages of parts from the feeder lines.”

Clearly, this research has serious implications for the way manufacturing plants are designed and managed. The command-and-control management approach favored by Taylor — still widespread — assumes that workers are the weakest link in an otherwise flawless chain. But this does not appear to be the case. Indeed, the study provides new substantiation for the idea, enshrined in the Total Quality Management movement, that workers can make their greatest contribution through troubleshooting and problem solving. +