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## Leading Ideas

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# Manufacturing's "Make or Break" Moment

by Kaj Grichnik and Conrad Winkler

**M**anufacturing is at a crossroads. In one sense, there have never been better prospects for the makers of products than there are right now. Innovation is rampant; capital is available; technological changes have enabled new materials and manufacturing processes; and the global standard of living is steadily improving, enabling billions of consumers to buy new and existing products.

Renewed political interest in manufacturing is also evident. French President Nicolas Sarkozy, upon being elected, vowed to protect his nation's industrial base. There is a similar movement brewing in the United States, driven in part by the idea of reclaiming an American reputation for quality. But these signs of a potentially bright future coexist with an unprecedented and extremely daunting confluence of challenges. The pressures on manufacturing are so great that they threaten to drive a significant number of firms to bankruptcy — especially those that do not fully appreciate the strategic value and distinctive opportunities of manufacturing.

The uncertain future of manufacturing raises fundamental geopolitical questions: How important is industrial capacity to a nation's well-being? Can older economies ever be great manufacturing bases again? And, if not, can they survive as global powers?

To understand the answers, we

must consider the magnitude of the pressures at play, and the trade-offs that manufacturers may have to make in response. One key factor is the scarcity of raw materials. For the first time since World War II, companies face worsening shortages in steel, aluminum, gold, silver, copper, platinum, and even recycled materials. Mining and processing facilities cannot keep up with ballooning economic growth worldwide. According to a Yale University study, every last bit of copper still unmined, plus all the copper currently in use, would be needed simply to bring the developing world to parity with industrial nations in quality of life. Silver, increasingly needed for such innovations as solar cell production, faces a similar shortfall.

Meanwhile, order backlogs for new factory machines have skyrocketed since 2004 as developing countries have significantly increased demand. These factors add urgency to the challenge of developing new processes and equipment.

Labor shortages provide another challenge. By 2020, according to the U.S. Census Bureau's International Data Base, there will be only two workers to support the pensions of each retiree in Japan, Germany, the United Kingdom, and France — down from three and a half workers per retiree in 2000. And as unemployment shrinks, manufacturing will have to find ways to attract motivated and capable employees. Today's companies are already being affected. A tube and

fitting manufacturer in northern Italy had enjoyed double-digit revenue gains from expanding sales in China. But when product demand jumped, the company could not find enough trained welders in the region. Eventually it imported a contingent of Romanian workers, but unless conditions change, even those welders may soon prefer to work for Starbucks.

And who can blame them? In most plants, industrial relations and treatment of the workforce are reminiscent of the 19th century. From 1999 to 2004, there were more strikes in most Western European countries than occurred between 1950 and 1975, when labor unions were at the peak of their influence. And the success rate of programs that are in part implemented to engage the workforce in sweeping bottom-up reforms — programs such as total quality management, Six Sigma, and Continuous Improvement — is mixed at best.

Manufacturers have also been hit by their own success in providing product variety. Even such simple products as plastic tubes have proliferated. For decades, only one type of tubing was sold for plumbing installations such as floor heating systems. Now, some tubes bend; others keep a rigid shape. Some are lined with recycled composites, others with aluminum. And although most will be buried under flooring, they come in black, white, gray, and yellow. Such complexity is often the single biggest cost driver in factories, but few companies calculate its impact or reorganize to meet it. In the auto industry, only one in five production lines can accommodate multiple types of cars, and this industry is said to be the front-runner in the race toward

flexible manufacturing.

Regulatory and competitive constraints also take a toll. Industrial production is responsible for 15 to 20 percent of worldwide greenhouse gas emissions. As measures to control carbon and other pollutants are mandated, manufacturers will have to find ways to minimize traditional energy use, develop renewable energy sources and grids, protect local water supplies, and

characteristic of such companies is their persistence as attentive innovators of operations. They treat manufacturing experimentation as a source of knowledge for improvement, and their solutions interact in a virtuous circle that reinforces its own impact. For example, to overcome shortages of silver, the solar cell industry has been working to advance its products in a way that relies on more abundantly available

## Whole industries may continue to disappear from developed regions such as the United States and Europe.

meet stricter and stricter regulatory reporting requirements. They will do this while struggling against new rivals emerging from low-cost countries and while dealing with their own senior management, who often treat manufacturing as a “cost cash cow” — a candidate for reaping another 5 or 10 percent in cost savings.

Because of the complexity of these interrelated threats, it is possible that whole industries will continue to disappear from developed regions such as the United States and Europe.

But there is also the counterexample of leading manufacturing companies, farsighted enough to view their factories, supply chains, logistics and procurement programs, inventory cycles, and labor management as strategic assets. These include Tetra Pak (the packaging giant), Novartis, Lego, Procter & Gamble, Boeing, Toyota, and a significant number of others, large and small. Perhaps the most striking

materials. These breakthroughs require entirely new designs in process technology. But if they can succeed, then they will not just reduce energy costs but make plant siting more flexible — factories will be freed from having to be near dwindling raw materials — and that in turn could enable supply chain innovations that make it far more possible to manage labor force shifts.

How then can national leaders foster a revitalized manufacturing base? By encouraging the development of more companies with the vision to invest wisely. To be sure, it will never be easy. Even enlightened manufacturing companies must work extremely hard to keep their edge. But with any luck, in the next few years, we'll see remarkable tools and ideas emerging that break the boundaries of conventional practices. Old, fossilized plant footprints can become nimble networks; confrontational labor relationships can evolve into constellations of joint

interest; outmoded supply chains can be transformed into clearly defined, mutually beneficial partnerships; and stolid aging factories can be retrofitted into showcases of lean manufacturing. Only those companies that appreciate manufacturing, invest in technology, and innovate in this field are likely to prosper. The challenge for governments is to figure out how to support them — for they are carrying the future.

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This article is adapted from Grichnik and Winkler's forthcoming book, *Make or Break: The Future of Manufacturing* (McGraw-Hill, 2008).

probably isn't that serious [about the position]."

Reliable statistics on the number of CSOs aren't available, and some CSOs use a different title, such as head of environment and safety, corporate citizenship, or corporate social responsibility.

One sustainability officer convinced that the trend is making a real difference is Susan Cischke, who in April 2007 was named senior vice president for sustainability, environment, and safety engineering at Ford Motor Company. New CEO Alan Mulally personally made the announcement, and the former mechanical engineer is one of 14 executives who report directly to Mulally. "I feel I have a very good seat at the table right next to Alan," Cischke says. "What's so powerful about this is that Alan has made it very clear that this is important, since all of our decisions have sustainability implications."

The same elements make it a difficult job. Cischke must be skilled diplomatically, and her communications talents must be razor sharp, because she has to reach across many functions within Ford. "We have people responsible for the environment and safety at our plants and for our products," she says. "But my job goes beyond that. It encompasses all products."

Cischke's first priority is to devise a sustainability strategy for Ford that stretches beyond 2020. To do that, she needs to persuade product planners to share what they are developing, convince research and development executives to quantify the environmental impact of technologies they have on the drawing board, and win over skeptical manufacturing executives who may not yet believe that they can

## A Sustainable Position

by William J. Holstein

**T**he already crowded C-suite just got a bit cozier. The chief privacy officer and chief security officer had barely settled in before having to make room for a new entry: the chief sustainability officer (CSO). Considering that even chief information officers, whose job was created about three decades ago, still complain of being ignored and purposely kept out of the loop, there's room for healthy skepticism about this latest management bandwagon. Is this proliferation for real, or is it all just another management fad to nowhere?

In some cases, it appears that the CSO is simply a rebranded environment, health, and safety (EHS) officer. At a minimum, the CSO is charged with helping the organization develop strategies for protect-

ing the environment and helping it benefit from doing so (that's about as good a job description for this role as is available so far), but the CSO has no executive-level responsibilities. In more and more instances, however, the job is more substantive. Companies are creating CSO positions to foster a set of programs relating to climate change, carbon emissions, recycling, pollution, natural resource conservation, and energy use. How much heft the CSO carries depends, naturally, on where the job sits in the corporate hierarchy. "You can tell a lot by [what person] the position reports to," says Timothy O'Brien, a partner at management recruiter Heidrick & Struggles, who has conducted several searches for sustainability executives. "If the CSO reports to the vice president of human resources or legal affairs, then the company

make cars efficiently and inexpensively with less ecological cost to the world around them. In all these endeavors, however, she has to remember that Ford is in business to make money. “If you’re just trying to do something for the environment, and it isn’t very economical, then you’re going to be out of business,” Cischke says.

Making sure that executives like Cischke are living up to their title is the mandate of investor groups such as Innovest Strategic Value Advisors, which rates 2,300 companies globally on environmental and sustainability issues. Innovest examines each organization’s reporting structure and documents whether the company has environmental protection and conservation initiatives already in place when a sustainability officer appointment is announced. But the

goal in December 2005, when the company added Peter Cartwright, executive director for environment, health, and safety, to the company’s 14-person executive committee, its key decision-making group. “The biggest driver for us regarding sustainability is that our customers are telling us that’s what they want,” says Cartwright, who is based in South Wales, U.K. “Customers are interested in environmentally friendly products, energy efficiency, and reducing waste.” He notes that a global survey of customers showed that for 80 percent, sustainability was a key factor in buying decisions.

Cartwright also tracks the impact of energy consumption and waste production on profits. “Energy is getting more and more expensive,” says Cartwright. “So by doing what’s good for the environment, you’re saving money at the

step: Because of its work with Environmental Defense, Wal-Mart no longer lets trucks at its distribution centers idle their engines while loading and unloading. Now they turn the engines off, reducing fuel consumption and emissions and saving money at the same time.

General Electric CEO Jeffrey Immelt has also made a splash by naming Lorraine Bolsinger head of the company’s Ecomagination initiative, which similarly aims to position GE as an environmental leader. Her job is to reduce the emissions generated by GE-manufactured equipment, such as jet engines and electric turbines, while coming up with plans to take advantage of sales opportunities in water treatment and alternative energy sources around the world. Bolsinger worked her way up through the company’s energy, aerospace, and aviation divisions, and now has clout in fiefdoms that don’t always cooperate with one another: marketing, sales, environment, health, and safety.

Heidrick & Struggles’s O’Brien says companies are looking for a “new breed” of executives to fill CSO-type positions. In the past, he says, EHS officers were like auditors. They primarily managed statistical reporting processes, working with low-level government officials to produce data about such issues as factory safety.

The new sustainability chiefs are different. “I’ve seen a pretty dramatic rise in the demand for business-oriented, articulate, strategic-thinking executives,” he says. “They have to be able to communicate persuasively to everyone from the shop floor to board members.”

Ultimately, the sustainability officer may go the way of the chief quality officer or the chief learning

## Corporate sustainability efforts can please investor groups and outside critics and also represent smart business.

group is also interested in whether boards of directors have committees dedicated to these concerns. “We interview companies and try hard to understand what’s just a press release versus something more substantial,” says Innovest President Hewson Baltzell.

Done right, corporate sustainability efforts can please investor groups and outside critics — including such organizations as Environmental Defense and the Rainforest Action Network — at the same time they represent smart business. That was Dow Corning’s

same time.” With Cartwright’s encouragement, the company recently broke ground on a US\$50 million plant in the British Midlands that seeks to reduce emissions and increase the recyclability of various silicon-based chemicals.

Some companies are particularly creative about their approaches to sustainability and the people who manage those efforts. Wal-Mart CEO Lee Scott has created a program called “Sustainability 360” and has hired people from nongovernmental organizations to implement it. One small but telling

officer, as companies absorb the key messages that these executives emphasize and embed them into core business processes. But that won't mean that the creation of sustainability titles was an empty exercise. "It's not Greenpeace or fringe stuff anymore," O'Brien says. "It's become mainstream."

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## Web-Based Apps:

## A Strategic View

by **Rodrigo Fontecilla and Steve Wardell**

**O**n the whole, today's chief information officers (CIOs) in companies large and small are anything but enthusiastic when asked their opinion of the ubiquitous client/server networks they manage. The client computers, whether desktop or notebook, are costly to buy and maintain; given the pace of technological change, they also need to be replaced every two or three years. The servers and the networks themselves are cumbersome, very breakable, expensive, and difficult to control. Worst of all, the personal productivity applications loaded on ever more powerful clients so employees can actually get their work done — a software sector long dominated by Microsoft — require that companies spend a king's ransom not just to purchase them, but to train users. And these same users must be retrained every time vendors update the programs and add yet more features.

Considering the cost and complexity of these networks, it's no surprise that CIOs have lusted after the dream of a so-called thin-client

computing environment, in which programs reside solely on servers and are doled out to cut-rate, slimmed-down, "dumb" workstations as the users need them. A minimalist version of this computing concept came into being with the invention of the Internet browser, which made it possible for individual client machines to access Web-based software — variously known as ASP (application service provider), software as a service, and now cloud computing. A good example is Salesforce.com, which provides salespeople with data management tools that can be accessed from anywhere via the Web.

But applications like Salesforce are geared toward a limited customer base. And until recently, no one had successfully offered the one thing that would make thin-client computing a widespread reality: Web-based personal productivity applications — the word processors, spreadsheets, and presentation software on which every knowledge worker has come to depend.

Finally, we have the advent of offerings such as Zoho office suite, ThinkFree Office, and, most notably, Google Apps. Even Microsoft

has entered the arena, with a Web-based version of Microsoft Works, though the software giant is still shying away from offering its big moneymakers, Word and Excel, online. Although these applications aren't yet quite ready for prime time, especially in computing environments on the scale of large corporations, their strategic implications, especially in an age of vastly increased mobility and the rise of the globally integrated corporation, are profound.

The virtues of Web-based productivity applications are many and compelling. Most obvious — and an issue dear to the heart of every CIO — is the cost relative to purchasing a full Microsoft Office package for every employee who needs such tools. Office costs US\$408 per user, which includes three years of maintenance. Every additional year of maintenance costs \$74. So a company with, say, 19,000 employees needing Office to do their jobs would have to pony up \$17.6 million over 10 years for the software. If only 20 percent of these workers were given Office and the rest were provided with a free Web-based application suite — whose maintenance and upgrading is the provider's problem, not the CIO's — the total 10-year cost would come to just \$3.5 million, a savings of \$14.1 million. Few organizations can afford to ignore numbers like those.

The financial advantages increase even more if one takes into account the cost savings achieved by shifting the storage burden from clients or the network to the vendor's data centers — and no longer incurring associated costs such as regular backup of employees' hard drives. And since documents and

spreadsheets stored on the Web can be accessed by anyone with the appropriate privileges, the burden imposed on corporate networks to manage the exchange of countless numbers of files is eliminated, as are the risks of contamination by e-mail viruses — another large cost savings.

Most of these programs are offered at no cost as part of a “bait and switch” strategy. Developers of this software hope to sell users additional, more powerful versions of their applications — so-called enterprise versions that run on client/server networks.

Which only highlights the limitations of the scaled-down Web-based productivity software. The maximum size of a word processing file produced in Google Apps, for instance, is just 500 kilobytes, plus two megabytes per embedded image, not huge in this age of documents that include pictures, spreadsheets, and numerous other design features (but enough to store a 125-page book without images, for instance). Other offerings are more generous; Zoho and ThinkFree allow files of 10 megabytes or so. Meanwhile, formatting and revision capabilities remain either nonexistent or primitive at best. Moreover, users must be online in order to use these applications.

Yet despite the relative lack of features, two productivity benefits of Web-based applications stand out. First, users can collaborate, editing Web-based documents and spreadsheets simultaneously; viewing the changes they make almost immediately; and, because most of these applications offer integrated instant messaging, discussing these edits the moment they are made. With all documents and spreadsheets stored in a central repository

that everybody can access, users can search and index the entire database. When companies compare working this way to developing and using an enterprise search application that must retrieve information from individual computers, they see immense savings both in time and in money.

The second benefit is interoperability. Because these applications are browser-based, they are free of any restrictions created by the type of computer or operating system being used. Windows, Mac OS, and

ing teams to new locations where infrastructure is iffy and IT support is minimal becomes much easier when all that is needed to get up and running is a lightweight notebook computer and an Internet connection. Such increased agility will let companies explore new market opportunities cheaply and rapidly, without the risk of an overinvestment of people, time, and money in marginal markets. Moreover, the relative lack of features in Web applications will probably be irrelevant in nascent markets, where

## Storing documents on the Web eliminates the burden imposed on corporate networks to manage files.

even Linux users can work together seamlessly, without worrying about file or storage compatibility.

Given these features, the rise of Web-based applications offers an intriguing strategic possibility: The cost advantage of Web-based applications — and, presumably, of the low-power computers needed to run these programs — should allow CIOs to be more generous when passing out computers to the rank and file in the organization. And when personal productivity tools spread farther down into the corporate hierarchy, employees throughout the company may be able to contribute to the organization more fully as they are linked to the huge information resources of the Internet. And they may be able to work with one another more flexibly.

That advantage takes on special significance in fast-globalizing business environments. Rapidly deploy-

skill levels may not be what we’ve come to expect in more developed countries. Indeed, storing proprietary and sensitive information on the Web and not on local computers would be a significant advantage in less-developed markets where the security of both data and physical computers remains a concern.

On the enterprise level, however, security and privacy concerns may be the one thing that could derail the success of Web-based applications. Despite the considerable value of storing files on Google’s or Zoho’s servers, that data is no longer under the direct control of the company’s internal technology and is thus more vulnerable to hackers and other computer security problems. Most offerings include some level of encryption for working with and storing files, and Google, for one, guarantees the security of files stored on its applica-

tions. Yet although Google is in general a trusted name, the company has already conceded that it searches e-mails sent by users of Gmail, its e-mail program, in order to target ads at users based on their interests. Other, less well-known companies may base their storage systems outside the U.S. CIOs have to weigh whether that sort of environment is appropriate to use for sensitive corporate information.

So far, thousands of smaller companies have already availed themselves of Web-based productivity applications. Will larger corporations follow? That depends on whether, and how quickly, CIOs — and their peers at the executive level — come to appreciate the strategic value of Web-based computing. Conceivably, the competitive ad-

vantage will go to the early experimenters and early adopters, as they will have a head start on the learning curve and training these applications require. And that advantage, in both cost and strategic value, could be significant.

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Leadership transitions are complex. Exchanges of responsibilities contain any number of challenges, primarily because they happen in real time with no pause in the organization's activities. The exiting executive is in the best position to direct events so that newcomers can avoid the usual "perfect storm" of tests: an overly stimulated imperative to jump into the job with both feet, ready for action; a sense that the appointment carries a change mandate; and an insufficient appreciation of company challenges, culture, and constraints.

Indeed, the last 90 days of the outgoing executive's tenure may be as critical to a successful transition as the first 90 days are for a newcomer. Yet the norm all too often calls for a "clean break" between the outgoing and incoming executive. Our research suggests, however, that a productive exchange between the two executives can significantly diminish the factors that may derail the successor's performance.

Clearly, new CEOs, investors, and fellow employees share an interest in ensuring that leadership changes hands smoothly. Outgoing executives also have much to gain: The value of stock options and stock holdings in retirement plans will depend on the company's future performance — as will the value of the executive's legacy.

Yet most departing executives — even those with the best intentions — have little idea how to play a worthwhile role. The most important task is for the former CEO to provide sufficient space for the new top gun to fully assume his or her responsibilities. Each episode of second-guessing erodes the newcomer's authority. And each time an outgoing executive "hovers"

## How to Help Your Successor Succeed

by **Nathan Bennett** and **Stephen A. Miles**

**C**onsidering what happened the last time Steve Jobs left Apple, it's no surprise that there's so much speculation about his next departure from the company. In 1985, Jobs lost a power struggle to John Sculley, the former Pepsi executive whom Jobs had brought in to add marketing pizzazz. When the dust settled, Jobs was out of a job and Sculley was riding solo, running the company without the help of the man who had cofounded Apple and knew it best. Unprepared for the task at hand, Sculley faltered, and Apple didn't recover until Jobs re-

turned to the company more than a decade later.

This time, Apple faces a similar quandary: Although no one is predicting Jobs's imminent departure, questions have arisen as to whether or not he has invested sufficient effort in preparing for his successor.

Contrast Apple's dilemma with how Bill Gates has transitioned leadership of Microsoft to a new CEO, Steve Ballmer. In 1998, Ballmer was publicly trotted out as Gates's number two, and at that point was given an independent voice in the company, access to a public stage, and real decision-making authority. These steps allowed Ballmer to demonstrate his legitimacy as Gates's heir.

— that is, attempts to assert his or her authority, however diminishing — a lack of confidence is displayed that can undermine the new CEO's position.

Newcomers can also be clumsy in their first steps. Many of those who are promoted to leadership roles from within fail to rise fully to their new positions at first. They do not let go of their old responsibilities or fully take on their new ones, perhaps out of a fear that they're not worthy of the job. That's a mistake that must be avoided. When a newcomer hasn't accepted his or her own promotion, it's unlikely that others will.

There are several organizational areas where a choreographed "handing over—taking over (HOTO)" process is essential. One executive showed us a HOTO policy that specifies in a highly detailed manner how documents, supplies, petty cash, and the like should be transferred. Regulations require departing and incoming executives to document their attendance at meetings that take place as a part of the transition process. However, the most important things to hand over are intangible — a company cannot design a form to document that outgoing executives have transmitted culture, norms, experience, or tacit knowledge about the company. Given that, newcomers must move quickly to:

- Create consensus among managers in terms of skills, strategies, systems, and structure.
- Build their own team.
- Establish relationships with their subordinates.
- Assess inherited talent and understand which gaps can be fixed by developing talent and which have to be fixed by adding talent.

- Diagnose power relationships in the company — learn the "chart behind the organizational chart."

- Instigate conversations to gain understanding of relevant elements of the past, present, and likely future of the company.

- Learn to manage complex and critical relationships with the company's board.

Achieving these goals demands a simultaneously deep and nuanced understanding of the company and its people, something that the newcomer may lack for the whole organization but that the exiting executive has in spades. As a result, departing chiefs can help their successors facilitate connections to the hubs of power and influence and deepen their successors' understanding of current strategy and how and why it was formulated. Moreover, with their knowledge of the skills and talents of the organization's employees, the outgoing executive has a responsibility to provide the newcomer with a dispassionate review of team member capabilities — who on the bus is "right," who can be "made right" through development, and who needs to exit.

Newcomers are driven by a natural desire to further their own careers. To that end, securing early wins to build momentum is important. The exiting executive can help the newcomer identify areas that offer the best chance for quick success and highlight potential flashpoints or quagmires. Newcomers often arrive with a forceful "action imperative," ready to undertake major change initiatives as a way of demonstrating bold leadership. Exiting executives can provide wisdom regarding how quickly and at what scale the company might support such actions.

In addition, newly arriving executives must be realistic in their performance expectations. To help with this, the exiting executive could provide a well-developed depiction of the position's constraints and resources as well as insight about workplace norms, such as the right way to express disagreement, address conflict, and make shifts in strategy.

As these interactions demonstrate, outgoing executives play a key role in building the foundation upon which their successors begin their tenure. Ironically enough, departing chiefs, rather than newcomers, may have the greater stake in the pragmatic, reasonable, and tangible aspects of leadership transition that are necessary to protect corporate interests. +

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