

ISSUE 65 WINTER 2011

2011 Best Business Books

BY JAMES O'TOOLE, PHIL ROSENZWEIG, DAVID K. HURST, DAVID WARSH,
CATHARINE P. TAYLOR, BARBARA KELLERMAN, AND MICHAEL SCHRAGE

BEST BUSINESS

IN 2001, when *strategy+business* published its first Best Business Books section, an irrationally exuberant investment bubble had recently popped and the business world was coping with a global recession. Now, as this feature enters its second decade, another irrationally exuberant investment bubble has popped and the global recession is back with greater ferocity. Apparently there is some truth to the

loosely translated epigram of French novelist Jean-Baptiste Alphonse Karr: The more things change, the more they stay the same.

Although they cover a wide variety of topics and fields, just about all of the books featured in the seven essays ahead are rife with dissatisfaction. Many of their authors have tracked down root causes of the destruction of economic value and prescribed radical solutions for them. Judging by the fact that the expert essayists we recruited to cull this year's stack of business books chose these particular titles, it's fair to assume that they too would welcome change that alters the status quo.

Professor of business ethics James O'Toole, who has contributed an unbroken chain of insightful annual essays since 2001, leads off with books that illuminate the social role of business. Karr-like, he finds that for all the change we experience, the defining characteristics of "good" companies remain the same over time — as does the inability of leaders to sustain them.

Next, IMD professor Phil Rosenzweig brings his sharp eye for flaws in business logic to his survey of this year's books on strategy. He chooses three books that eschew formulaic strategic approaches to focus on the fundamental questions executives must consider as they decide the direction of their company.

David K. Hurst, author and our regular Books in Brief reviewer, takes on the always-packed shelves of new books on management. His picks illuminate the struggle for the future of Western management practice and thought — and suggest the kinds of changes, and their magnitude, that may be needed to ensure that we move beyond business as usual.

Award-winning financial journalist David Warsh

picks the year's best books on economics. He discovers many worthy forward-looking books, and focuses on one in particular that describes the oncoming mash-up of national economies, providing what may prove to be a durable framework for making sense of a global economy that will soon be four times its current size.

Journalist Catharine P. Taylor brings two decades of perspective to her roundup of the year's best books on marketing. She finds a trio of compelling books that reject conventional marketing "window dressing" for more socially responsible and engaging approaches, but adopting such approaches would clearly require some corporate reinvention.

We placed this year's choices for best leadership books in the capable hands of Barbara Kellerman, a professor at Harvard University's John F. Kennedy School of Government. In her first best business books essay, Kellerman bypasses leadership theory for leaders' lives, picking two biographies of American presidents and a presidential memoir that illuminate four lessons for better understanding executive effectiveness.

Finally, *strategy+business* contributing editor Michael Schrage of MIT's Sloan School of Management and London's Imperial College returns to our pages with an essay on the best books on technology. His choices broaden our understanding of how people and technology interact and coevolve, creating innovation ecosystems in the process.

Here are the year's best business books. I hope you find them as worthy as we do and take some of their ideas to heart. If you do, we might not be reliving this same cyclical chaos 10 years hence.

— Theodore Kinni

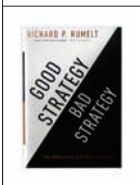
S BOOKS 2011

s+b's TOP SHELF



ETHICS AND ASPIRATIONS

Howard Schultz with Joanne Gordon,
Onward: How Starbucks Fought for Its Life without Losing Its Soul
(Rodale, 2011)



STRATEGY

Richard P. Rumelt,
Good Strategy, Bad Strategy: The Difference and Why It Matters
(Crown Business, 2011)



MANAGEMENT

Roger L. Martin,
Fixing the Game: Bubbles, Crashes, and What Capitalism Can Learn from the NFL
(Harvard Business Review Press, 2011)



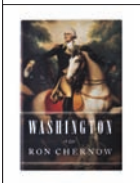
ECONOMICS

Michael Spence,
The Next Convergence: The Future of Economic Growth in a Multispeed World
(Farrar, Straus and Giroux, 2011)



MARKETING

Simon Mainwaring,
We First: How Brands and Consumers Use Social Media to Build a Better World
(Palgrave Macmillan, 2011)



LEADERSHIP

Ron Chernow,
Washington: A Life
(Penguin Press, 2010)



TECHNOLOGY

Kevin Kelly,
What Technology Wants
(Viking, 2010)

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Howard Schultz with Joanne Gordon, *Onward: How Starbucks Fought for Its Life without Losing Its Soul* (Rodale, 2011)

Edward E. Lawler III and Christopher G. Worley, with David Creelman, *Management Reset: Organizing for Sustainable Effectiveness* (Jossey-Bass, 2011)

Michael Beer, Russell A. Eisenstat, Nathaniel Foote, Tobias Fredberg, and Flemming Norrgren, *Higher Ambition: How Great Leaders Create Economic and Social Value* (Harvard Business Review Press, 2011)

ETHICS + ASPIRATIONS

The Good Company Revisited

by James O'Toole

NOT SINCE THE 1980s has so much been written about the social role of business enterprises. An Internet search of such key terms as *business purpose*, *values*, *ethics*, *responsibility*, and *sustainability* yields page after page of references to recent articles in business journals, of both the popular and scholarly persuasions. This renaissance of interest in the topic is also reflected in a bumper crop of books published during the last year, the quality of which runs the gamut from the sublimely inspiring to the patently ridiculous.

A Perfect Brew

The pick of the 2011 harvest is Howard Schultz's *Onward: How Starbucks Fought for Its Life without Losing Its Soul*, the renowned coffee purveyor's tale of how he resuscitated the global chain after it nearly expired during the recent recession. Most business readers will be familiar with the story: Over 37 short years, Seattle's little coffee shop expands around the world, growing to some 17,000 outlets, seemingly two on every block in major cities. During this time, Starbucks can apparently



do no wrong. The chain becomes so successful that its founder and CEO, Howard Schultz, feels comfortable enough to kick himself upstairs to the chairman's office and turn the company's operating reins over to his chosen successor.

All seems right in Schultz's world until 2007, when suddenly everything goes wrong. Just as the global financial crisis looms, Starbucks hits the wall, suffering from over-expansion and a widely perceived decline in the quality of its products. Customers disappear, the stock price drops from US\$26 to \$7 a share, and about \$21 billion in market value evaporates in 10 months. With Wall Street bears predicting the company will go belly-up (one rumor has McDonald's acquiring it in a fire sale), Schultz does exactly what the experts counsel against: He un-retires as CEO and moves back into the corner office.

On one level, *Onward* is Schultz's explanation of why he chose to return to his old post and a chronicle of what he did to get Starbucks back on track. He reports in considerable detail the pain of terminating some 6,700 jobs, closing 800 stores, and bidding adieu to the CEO he had recruited to succeed him. He then describes the managerial steps he initiated to restore the company to its former, profitable self. But that turns out to be the least interesting part of the book, particularly for those familiar with the efforts of other CEOs who have had even greater managerial obstacles to conquer, such as the transformational challenge Louis Gerstner faced at IBM, which was, comparatively speaking, a colossal wreck when he assumed command in Armonk in 1993. Doubtless, Schultz's task felt overwhelming to him, and he deserves much credit for leading a fast and full business turnaround, but that's not the main reason to read his book.

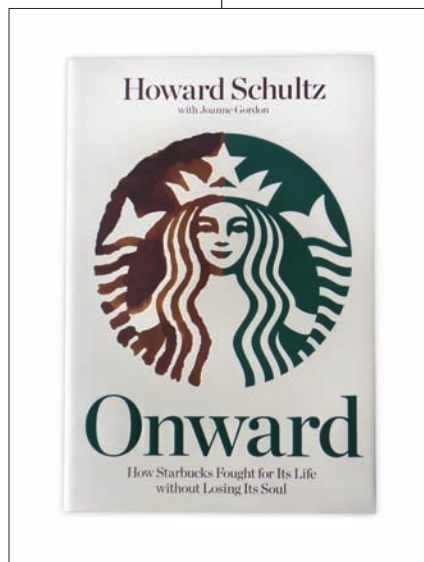
What is special about *Onward* is that Schultz comes across as an authentic avatar of socially responsible capitalism. He seems to be a business leader of great conscience who tries always to do the right thing, practice what he believes in, and stick to his high principles in bad times as well as good. He is also that most unusual of celebrity CEOs — one who admits his mistakes, says he is sorry, and takes personal responsibility

when things go awry. Schultz is far from perfect: He acknowledges making egregious product decisions against the advice of his management team, and although he tries hard to show humility, delegate authority, and be patient with subordinates, it's clear he doesn't always succeed in these endeavors. Nonetheless, he's about as humble as American top executives get.

Of course, the measure of corporate leaders is not what they say, not how nice they are, not even the extent to which they have their egos under control. What matters is how they act, and by that metric Schultz shines. Consider a few things he did in the midst of his company's financial crisis — and while stockholders, Wall Street analysts, and business journalists were carping about his every move. He started by being honest with everyone about what the company's problem really was: Starbucks had lost sight of its values and, thus, was shortchanging its customers. In the past, the company's goal had been to make “the perfect cup of coffee” for every customer, but Schultz acknowledged that its focus had shifted to generating growth at all costs to satisfy “the Street.”

To show he was serious about restoring the quality of Starbucks coffee, Schultz shut down all the company's 7,100 North American stores for a barista video training session one Tuesday afternoon in February 2008. And to ensure that “the romance of coffee” would once again be central to the company's culture, he brought Starbucks's 11,000 store managers to New Orleans (at a cost of \$35.5 million) for a week of discussions about the firm's values, problems, and potential. Because one of those prime values was balancing profitability with a social conscience, the managers spent a day in the city's Hurricane Katrina-devastated neighborhoods, where they donated 50,000 hours of community service. And, even as Starbucks's team worked to cut costs and boost profits, the company redoubled its efforts with regard to the ethical sourcing of coffee beans and its complementary microfinancing and community development programs in impoverished rural areas.

That's all impressive stuff, but to my mind, Schultz's actions have been most admirable in the are-



na of employee relations. Schultz, we recall, grew up in Brooklyn's housing projects, the son of a blue-collar worker who never made more than \$20,000 a year. As a direct witness to the psychological injuries that too often result from low-level employment — as well as the physical injuries and the absence of health insurance and workers' compensation to pay for them — Schultz vowed he would become the “good employer” his father never had. From Day One, Starbucks has offered the highest pay and most generous benefits (for part-timers, too) in the fast-food industry. Even when the company was hemorrhaging red ink, Schultz announced that Starbucks's employee stock ownership and health insurance programs were sacrosanct.

Now that the company stock is trading near its all-time high, Schultz continues to engage in some rather unusual CEO behavior: He keeps reminding his 200,000 employees about the lessons Starbucks learned from its near-death experience. He says they must never forget that complacency and hubris are dangerous by-products of success; success must be re-earned every day by exceeding customer expectations; it is necessary to stay, and think, small even in a big corporation; growth needs to be disciplined and not subject to irrational exuberance; having passionate people is more important than having a robust strategy, ergo, treating employees with respect must be the company's first order of business; and, although strategy, products, and policies need to be continually reexamined, Starbucks's commitment to its basic values must be constant. Nothing original there, perhaps, but unusual in that Schultz's actions seem to match his words. That's called integrity, and Schultz sees that ethical virtue as a wellspring of the trust that motivates employees to make that little extra effort to prepare the perfect cup of coffee.

Although he doesn't explicitly say so, Schultz's ongoing leadership actions seem focused on institutionalizing Starbucks's culture, so it will live on long after he vacates the C-suite. Schultz has good reason to be concerned: Not only were Starbucks's values quickly diluted after he stepped down as CEO, but history shows that few companies are able to sustain highly responsible cultures after their founders step down. In the 1980s, I undertook a study of some two dozen firms

widely recognized for their social commitments and ethical practices. Today, only a half dozen of the companies — Johnson & Johnson (J&J), Dayton-Hudson (now Target), Cummins, Xerox, W.L. Gore, and Herman Miller — are still in existence, still financially successful, and still practicing something like their original virtuous behaviors. Of those companies, J&J and Herman Miller had their commitment to virtue severely tested over the years, and Cummins and Xerox saw that commitment considerably weakened by new CEOs. More recently, three of yesterday's exemplars of corporate virtue — Toyota, BP, and Goldman Sachs — have had their once-sterling reputations badly tarnished, and two of the most radically progressive models of social responsibility — Ben & Jerry's and the Body Shop —

Schultz's actions seem focused on institutionalizing Starbucks's culture, so it will live on long after he leaves the C-suite.

lost much of their uniqueness when they were acquired by companies with more conventional business philosophies. Hard as it is to do good, it seems harder still to sustain that behavior.

Nuts and Bolts

The practical challenge of making good business practices endure is usefully addressed by Edward E. Lawler III and Christopher G. Worley in *Management Reset: Organizing for Sustainable Effectiveness*. Unlike most “eco-groovy” books published this year, *Reset* is research based, is realistic, and deals with the nuts and bolts of organizational management. And unlike other sustainability texts, this one doesn't argue why companies should be economically, socially, and environmentally responsible; instead, it deals with how a company should be managed to achieve those ends. In effect, the authors' starting point is where Schultz leaves off: They are seeking to overcome the tendency of good companies to fail because they are not as strategically and organizationally agile as they are socially responsible.

The authors group evidence for the sustainable management practices they advocate into four core business components: *the way value is created* (the formu-

lation of strategy and competitive advantage), *the way work is organized* (the design of structure and systems), *the way people are treated* (how employees are recruited, developed, and rewarded), and *the way behavior is guided* (the role of leadership and corporate culture). They then disaggregate those categories by examining what social scientists have discovered about such practical tasks as strategy creation, board governance, organizational design, and management systems and rewards.

I am no fan of how-to books, but this one overcomes the main weaknesses of the genre by offering a balance of rigorous intellectual theory along with concrete examples (from companies including Procter & Gamble, W.L. Gore, Patagonia, Southwest, UPS, and DaVita) to illustrate the practicality of the authors' ideas. Nonetheless, there is much to be said about this subject that Lawler and Worley (incidentally, my former university faculty colleagues) omit or overlook, and more than a few points they make are debatable. For instance, to my mind, they define *high-involvement management* so narrowly that they miss the potential contribution employees can make to the ends they advocate, and they ignore the value of employee stock ownership in creating company sustainability. So although *Management Reset* should not be seen as the final word on this important subject, it is an essential starting point for further thought, research, experimentation, and discussion.

The Leader's Role

Curiously, there no longer seems to be much discussion about whether or not business should play a social, as well as an economic, role. Indeed, leaders of major global companies today feel compelled to at least lay claim to a "socially conscious" mantle. That's probably why esteemed Harvard Business School professor Michael Beer (along with no fewer than four coauthors) skips the "why" foreplay and jumps directly into descriptions of the leadership practices of 36 current and past CEOs in *Higher Ambition: How Great Leaders Create Economic and Social Value*.

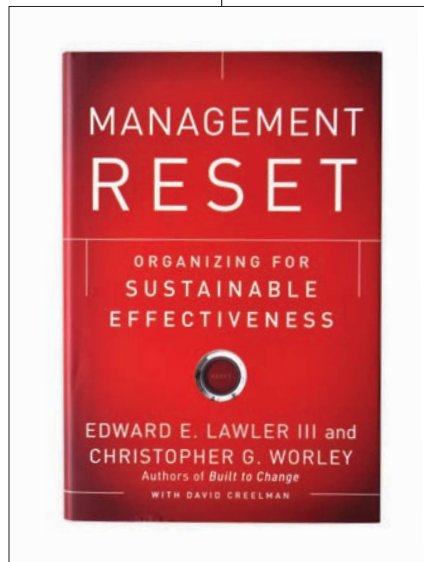
The authors offer breezy reports of their interviews with this "sample" of executives from a mixed bag of

companies, including a few widely recognized for their social contributions (Tata, Cummins, Herman Miller); many better known for their managerial excellence than their social practices (Southwest, Medtronic, Asda); and one or two, like Nestlé, with records of questionable social performance. The book is significant, I suggest, because it accurately reflects the way that many leaders of large multinationals demonstrate their social consciousness: They assert it. Neither the executives interviewed nor Beer and his colleagues make direct reference to specific social programs, practices, or policies at their 36 exemplar companies (with the notable exception of Tata's well-documented attempts to alleviate poverty in India). (See "Too Good to Fail," by Ann Graham, *s+b*, Spring 2010.) Instead, what they document is that leaders of these companies create great places to work and engage in most of the familiar progressive management practices described in detail elsewhere by the likes of Tom Peters, Jim Collins, and Beer himself.

The authors take the 36 leaders at their word when they say they engage diligently in developing the leadership capacities of their organizations, use values as the glue in their corporate cultures, hold subordinates accountable for their actions, focus on execution and implementation, spend inordinate amounts of time

in two-way communication with associates, and exercise team leadership. The executives also claim to listen to their associates, show them respect, and involve them in managerial decisions. And readers are assured that these leaders share the admirable character traits of humility and ethical integrity, all while being "uncompromising" (differentiating them, of course, from "rigid and inflexible" executives). Most important, the leaders confess to having well-developed stakeholder orientations and deep dedication to some higher social purpose that serves to motivate their troops and generate institutional loyalty (creating, in the words of Nokia's Jorma Ollila, "a feeling that, gee, we can do something really good").

I doubt none of this, and would have been surprised only had the authors found otherwise. Indeed, it is useful to reinforce the importance of such familiar



practices because, as Beer and his colleagues aptly note, these are devilishly hard behaviors to engage in consistently. Yet the book misses golden opportunities to offer meaningful analysis of what these leaders actually do to create social value, and to provide an objective evaluation of the extent to which they actually add that value.

Since most of these leaders, in fact, have truly impressive records, we could have learned a lot from a critical analysis and assessment of their behaviors. For example, one of them, Allan Leighton, has been widely acclaimed for his brilliant transformation of Britain's Asda in the 1990s, and tried to accomplish the same as head of the U.K.'s Royal Mail. Hence, the curious reader might want to learn the extent to which his successful practices at the discount retailer worked at the nonprofit postal service, and how creating social value fit with his tasks at the post. Alas, we are told none of that and, instead, are treated to recitations of the leaders' management-speak aphorisms: "Keep it simple," "Commit, yet adapt," "Stay the course." All good advice, but as Yogi Berra said, it's déjà vu all over again, and it's unclear how it all relates to creating social value.

It must be said that *Higher Ambition* makes a deeper analytical contribution than most other recent books purporting to show that corporations can do well by doing good. The message of most others of that genre boils down to a hyperventilated exhortation to "save the world while getting rich!" *Higher Ambition's* authors at least make an attempt to distill the wisdom gleaned from their interviews, basically concluding that good companies share such general characteristics as a stakeholder orientation, a dedication to some higher purpose, a commitment to continuous learning that leads to flexibility, and the pursuit of excellence across the board.

It is worth noting that these are roughly the same characteristics of the good companies that I studied in the 1980s — and significantly, only two of those make the grade on *Higher Ambition's* contemporary roster. How to explain that manifest lack of sustainability in corporate virtue? From reading *Higher Ambition*, my guess is that organizational traits may not be the most relevant factor in determining why or how some profitable companies do good things while others don't (instead, such traits may be a result of doing good, what

social scientists call dependent variables). Instead, I am now inclined to believe that having a dedicated, courageous leader is the key factor in determining the extent to which a company has a social conscience. And, since leaders come and go, the questions to address then become: (1) what motivates executives to create ethical, socially responsible corporate cultures; and (2) how can such behavior be encouraged among greater numbers of leaders? Beer and his colleagues eventually come around to addressing those questions in their penultimate chapter, but they don't really develop the answers, which remain rather sketchy. Seems a shame that they didn't focus their book on those ripe subjects.

Missing, in general, from most books in the still-emerging "good business" genre is a recognition of such

Having a dedicated courageous leader is the key factor in determining the extent to which a company has a social conscience.

harsh facts of business life as the managerial necessity to make painful trade-offs between competing claims of stakeholders, for example, those of environmentalists on one side and employees on the other. Too many sustainability authors deal with such complex, unpleasant issues simply by ignoring them, but, fortunately, they don't all have their heads in the clouds. There's no eco-gee-whiz and no promises of a utopia in which capitalists all get rich simply by being virtuous in any of the best books on ethics and aspirations this year. I found them to be the most inspiring of the current lot because they demonstrate that there are practical, better ways to manage, even given the real-world constraints of capitalism as it is and the tough, daily slog that is the salient fact of organizational life. +

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Paul Leinwand and Cesare Mainardi, *The Essential Advantage: How to Win with a Capabilities-Driven Strategy* (Harvard Business Review Press, 2011)

Michael A. Cusumano, *Staying Power: Six Enduring Principles for Managing Strategy and Innovation in an Uncertain World* (Oxford University Press, 2010)

Richard P. Rumelt, *Good Strategy, Bad Strategy: The Difference and Why It Matters* (Crown Business, 2011)

STRATEGY

Asking the Right Questions

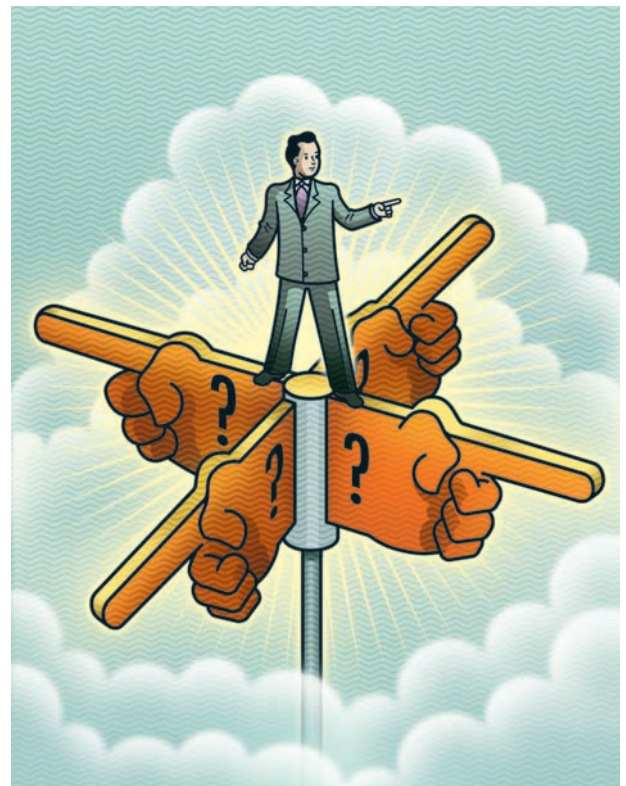
by Phil Rosenzweig

THIS YEAR'S BEST BUSINESS BOOKS on strategy are notable primarily for what they're not. They're not one more treatment of global strategy, with particular attention to the BRIC countries (Brazil, Russia, India, and China). They're not about finding the next new thing, thriving in turbulent times, or some new technological frontier, like social media. Nor do they claim to reveal the secret of corporate success, guaranteeing breakthrough performance or market leadership if we follow this or that formula.

Instead, the best strategy books of the year emphasize basic principles that should never be far from the mind of the practitioner. Although they differ in scope and tone as well as perspective — two are written by academics and one by consultants — they converge on a handful of timeless themes. If each is a valuable addition to the strategy bookshelf, in combination they offer even more, helping to remind us of the most important questions in the discipline.

Premium on Coherence

The Essential Advantage: How to Win with a Capabilities-Driven Strategy, by Paul Leinwand and Cesare Mainardi, partners at Booz & Company (the publisher of this magazine), provides a solid overview of current strategic thinking. The two consultants open the book by introducing the intriguing concept of “the right to win.” (See “The Right to Win,” by Cesare Mainardi



with Art Kleiner, *s+b*, Winter 2010.) At first glance, the phrase makes no sense: A company may have a right to compete, yes, but surely not a right to win. Success is earned; it's not an entitlement. But that's the point. The phrase forces us to ask: Does our strategy, along with the resources and capabilities that back it up, give us a reasonable chance of success? Are we just playing the game, or do we have what it takes to win?

When Leinwand and Mainardi write, “The essential advantage in business is coherence. Our insight is that simple,” they take their place in the line of strategic thought that stresses not a single part of the organization, but how all the parts work together — a notion sometimes called *fit* or *alignment*. Coherence, they say, means that a company must be focused and clear-

minded about three elements: its market positioning (or “way to play”), its most distinctive capabilities, and its product and service portfolio. “In a coherent company,” they argue, “the right lineup of products and services naturally results from conscious choices about the capabilities needed for a deliberate way to play.”

The authors ground their argument by showing a correlation between recent financial performance and coherence in the consumer packaged goods industry, and claim that the same relationship holds true across industries, whether financial services, telecommunications, healthcare, or something else. They contend that a premium “accrues to any company that moves along the continuum to align its way to play, capabilities system, and product and service fit.” Perhaps so, yet even if there is a correlation, the direction of causality isn’t clear. Are coherent firms more successful than others, or do successful firms remain coherent? (One of the books the authors cite, *Profit from the Core* [Harvard Business School Press, 2001] by Chris Zook, a partner at Bain & Company, has the same problem: Are focused companies the most profitable, or do profitable firms remain focused while less-profitable ones feel compelled to diversify?) These questions, although fundamental in any empirical examination of company performance, remain unanswered.

To capture the benefits of coherence, the authors advise the reader to take a series of deliberate steps “to reconsider your current strategy, overcome the conventional separation between outward-facing and inward-facing activities, and bring your organization into focus.” *The Essential Advantage* goes on to examine each of these steps in some depth, beginning with an exploration of external forces, and then shifting toward a consideration of internal resources and capabilities. Along the way, the authors set forth the notion of the “capabilities-driven portfolio,” which is evaluated on two dimensions, financial value (from attractive to unattractive) and strategic value (which considers the portfolio’s alignment with the organization’s capabilities system). The implication is that we should think of a portfolio of activities not merely in terms of growth and profit, but in terms of how they fit together and contribute to the overall performance of the company. The final section addresses the process of developing a strategy that is based on “what you do, not what you have,” and the organization design and people issues that accompany it.

For the practitioner who wishes to take concrete steps toward sound strategic decisions and ensure that

they are aligned with the necessary resources, *The Essential Advantage* is a solid and practical book. It provides managers with a framework to follow, while always keeping in mind the question, Do we have the right to win?

Patterns of Success

Michael A. Cusumano, a veteran researcher at MIT, looks for patterns of lasting success in his latest book, *Staying Power: Six Enduring Principles for Managing Strategy and Innovation in an Uncertain World*. In it, he reviews the companies he has studied in depth during his career — first, Toyota and the broader Japanese auto industry in the late 1980s, and then Microsoft, Intel, and other information technology companies in the 1990s — to identify “the big ideas that create staying power and superior performance.” These are the principles that should have enormous value for managers in all industries. (See “The Enduring Principles of High-Tech Success,” by David K. Hurst, *s+b*, Autumn 2011.)

As the book’s title indicates, Cusumano is concerned with success over the long term. He writes, “I concluded that a handful of principles — I have chosen six — appear to have been essential to the effective management of strategy and innovation over long periods of time.” It’s worth noting his use of words like *appear* and *I concluded*, which admit subjective judgment, rather than claiming a measure of truth or scientific precision. Indeed, there’s no pretense of conducting quantitative analysis in this book; rather, it represents an effort to seek patterns from in-depth case studies.

The first two principles describe fundamentally different ways of thinking about strategy and business models. *Platforms, not just products* draws on the successes of Toyota and Microsoft to illustrate the power of a strategy that generates complementary products, builds positive feedback, and makes incumbents harder to dislodge. In both companies, global leadership was based on the ability to create platforms, not just stand-alone products. *Services, not just products (or platforms)*, the second principle, stresses the importance of offering services as an effective way to avoid the commoditization of products. Not only do services add revenue, often at a higher profit margin, but they are also harder to replace.

The next four principles are all related to agility — to sensing and responding quickly and flexibly. *Capabilities, not just strategy* stresses the need to develop capabilities over time, rather than rely on any single strategic

decision. *Pull, not just push* is associated with Japanese manufacturing methods, but, according to Cusumano, it goes far beyond that application. It pertains to product design, for example, because the ability to draw on customer preferences and ideas early in the process can confer an advantage. *Scope, not just scale* reminds us that in addition to the benefits of scale, which can lead to lower per-unit cost, successful companies seek out economies across activities such as research, product development, engineering, and more, sharing ideas and applying novel insights from one part of the company to others, allowing the whole to be greater than the sum of its parts and often more robust and better able to withstand downturns. Finally, *flexibility, not just efficiency* stresses the importance of pursuing efficiency while also remaining able to adapt to changes in the marketplace as well as seeking advantages of innovation.

These six principles represent a set of guidelines that executives in any company or industry should consider in order to achieve high performance over the long term. Take them together, and instead of a conventional strategy aimed at pushing scale-efficient products, for example, we would think of developing capabilities that enable us to offer flexible platforms of services and products. For Cusumano, staying power comes not just from discrete strategic moves but ultimately from a mind-set of agility and responsiveness.

Strategy Plain and Simple

The year's best and most original addition to the strategy bookshelf is Richard P. Rumelt's *Good Strategy, Bad Strategy: The Difference and Why It Matters*. Rumelt is a longtime strategy professor at UCLA, and before that at Harvard Business School, where he wrote a landmark work of scholarship and empirical rigor, *Strategy, Structure, and Economic Performance* (Harvard University Press, 1974), which was based on his prize-winning doctoral dissertation.

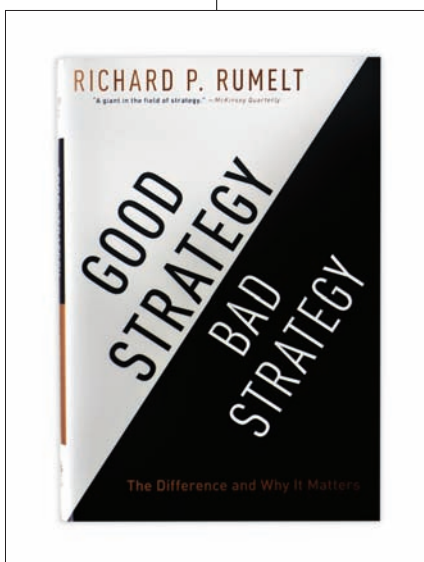
This book, however, takes a decidedly different tone. It is informal and personal, sprinkled with anecdotes and opinions, which are often contrarian. It is as if Rumelt decided, after years of scholarly restraint, to write a book that laid out exactly what he has learned

and observed over the last four decades. It is also a wide-ranging exploration, moving from business to politics to aerospace to the military, from the ancient to the modern, from diversified public corporations to family businesses, that places strategy in a broad context.

Unlike the many authors of business books and articles who use elaborate phrases and neologisms, Rumelt prefers candor and simplicity at every turn — beginning with the title. Duke Ellington was once asked to define jazz, and he famously replied: “There are only two kinds of music. Good music, and the other kind.” He felt no need to complicate matters with lots of theory and abstract concepts, and Rumelt clearly feels the same way about corporate strategy. Rumelt urges us to set aside fine-grained distinctions and unnecessary complications, in order to focus on the simplest distinction of all — good and bad. He has seen so much bad thinking about strategy that this basic dichotomy is important. It's a way to remind us that for all the efforts we make to complicate things, good strategy is not all that complicated. If we can just avoid bad thinking and foolishness, we're much of the way there.

What are the elements of bad strategy? Rumelt points to four: the failure to face the challenge, mistaking goals for strategy, bad strategic objectives, and “fluff.”

At its root, bad strategy reflects an inability to think clearly and to make sound choices based on analysis. The author dismisses those who would substitute wishful thinking for careful analysis, epitomized in his opinion of the New Thought movement, which goes back to the 1800s, but more recently has surfaced as the power of positive thinking and banishing negative thoughts. Shared visions of success cannot be the basis of strategy, says Rumelt, because “all analysis starts with the consideration of what may happen, including unwelcome events. I would not care to fly in an airplane designed by people who focused only on an image of a flying airplane and never considered models of failure.” Regarding vision and mission statements, Rumelt finds that they represent a “class of verbiage [that] is the mutant offspring of charismatic, then transformational, leadership. In reality, these are the flat-



footed attempts of organization men to turn the magic of personal charisma into a bureaucratic concept—charisma-in-a-can.”

So what is good strategy? It requires three things: a diagnosis that defines the challenge; a guiding policy for dealing with the challenge, and a set of coherent actions designed to carry out that policy. To help navigate the way forward, Rumelt offers numerous “guideposts”: vigilance about escalating fixed costs, awareness of transitions caused by deregulation, predictable biases in forecasting that draw on behavioral economics, and anticipation of incumbent responses. Sound strategic decisions are not enough, however; execution is essential, too. “Strategy is about action, about doing something. The kernel of a strategy must contain action,” writes Rumelt. “To have punch, actions should coordinate and build upon one another, focusing organizational energy.”

Good strategy calls for effective management and concerted efforts to combat entropy. It calls for the discipline needed to identify low performers and raise the level of overall performance. One “cannot fully understand the value of the daily work of managers unless one accepts the general tendency of unmanaged human structures to become less ordered, less focused, and more blurred around the edges,” writes Rumelt. He admires Alfred P. Sloan of General Motors Company, who insisted on a rigorous review to analyze performance and take action, writing, “Sloan’s product policy is an example of design, of order imposed on chaos. Making such a policy work takes more than a plan on a piece of paper. Each quarter, each year, each decade, corporate leadership must work to maintain the coherence of the design.”

Anyone hoping for a simple formula for strategic success will be disappointed. But in fact the message of *Good Strategy, Bad Strategy* is liberating. It reminds us that strategy need not be complicated. It’s not rocket science. And furthermore, you can spot the nonsense, simplify, and clarify. “A good strategy is, in the end, a hypothesis about what will work. Not a wild theory, but an educated judgment,” concludes Rumelt. “Good strategy grows out of an independent and careful assessment of the situation, harnessing individual insight to carefully crafted purpose. Bad strategy follows the

crowd, substituting popular slogans for insights.”

Many of the ideas in Rumelt’s book reinforce key points in *The Essential Advantage* and *Staying Power*. Like Paul Leinwand and Cesare Mainardi, he stresses the need for coherence. Like Michael Cusumano, he emphasizes strategic thinking as a process — a hypothesis to be answered with openness to new ideas. Each of these books reminds us of the basic elements of strategy: the need for clear-eyed analysis, courage to make specific choices, action in support of those decisions, and alignment throughout the organization. They are all about coherence, about developing capabilities not once but in a dynamic manner, and ultimately, about the agility needed to succeed over time.

None of these books guarantee success — not

“A good strategy is...a hypothesis about what will work,” concludes Rumelt. “Not a wild theory, but an educated judgment.”

Rumelt’s good strategy, not Cusumano’s six principles, not Leinwand and Mainardi’s essential advantage. In an uncertain and intensely competitive business world, even the best of actions don’t lead predictably to desired outcomes. Strategy is necessarily about competition, where performance is inherently relative, not absolute — a message driven home by the cover of *The Essential Advantage*, which shows a race among five runners, suggesting that success isn’t about being fast but about being faster than your competitors. Each of these authors knows that fundamental truth and doesn’t try to tell readers otherwise. Their books do an important service by keeping us focused on the most important questions about strategy. +

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Bob Lutz, *Car Guys vs. Bean Counters: The Battle for the Soul of American Business* (Portfolio/Penguin, 2011)

Roger L. Martin, *Fixing the Game: Bubbles, Crashes, and What Capitalism Can Learn from the NFL* (Harvard Business Review Press, 2011)

Tim Harford, *Adapt: Why Success Always Starts with Failure* (Farrar, Straus and Giroux, 2011)

MANAGEMENT

The Battle for Management's Future

by David K. Hurst

AS THE TUMULTUOUS DECADE of the “noughties” fades into history, the battle lines for the future of Western management practice and thought are becoming clearer. Each of the best business books on the topic of management reviewed this year sheds some light on where and why we went off the rails, and what we should do about it. One book’s author is a respected U.S. auto company executive, another is the dean of a Canadian business school, and another is a British journalist. They come at their subjects from very different perspectives, but all their views are insightful, and the overlaps among them are intriguing.

A Detroit Swashbuckler

In *Car Guys vs. Bean Counters: The Battle for the Soul of American Business*, veteran auto company executive Bob Lutz uses his varied experience in Detroit, particularly his nine years as vice chairman of General Motors Company, to show how the U.S. auto industry lost its soul and is trying to recover it. Lutz is a former fighter pilot and a self-confessed “right-brained car guy” with a multicultural background unusual in Detroit (he was born in Switzerland and worked extensively in Europe). He has been described as an opinionated swashbuckler, and he lives up to that reputation in this book, with his outspoken views and entertaining turns of phrase.

Lutz dates the decline of GM to the 1960s, when, in the interests of volume and cost efficiency, the design function was progressively subordinated to the “empire”



of finance and accounting, eventually ending up under the auspices of product planning. Instead of producing cars that were objects of passion, he says, “the system created research-driven, focus-group-guided, customer-optimized transportation devices, hamstrung in countless ways.”

Lutz’s firsthand description of the charisma-challenged, nitpicking, customer-distant “culture of excellence” that GM developed makes for painful reading. He reports how attempts to adopt brand management practices from the consumer packaged goods sector failed because of the much larger scale and longer time frames in the auto industry. Worse still, according to Lutz, GM’s elaborate Management by Objectives–based Performance Management Process (PMP) was a

“ritualistic time suck” without “a smidgen of customer value.” PMP allowed senior managers to hit all their numeric targets and earn bonuses, even as GM steadily lost market share. “[A] senior executive who needs a quantified list of objectives to know what he or she should be working on should not be a senior executive in the first place,” he writes.

Not all GM’s wounds were self-inflicted. Lutz is highly critical of the government’s CAFE (corporate average fuel economy) regulations, which warped the market toward trucks. He also accuses U.S. politicians of failing to bite the bullet and impose a gas tax, which would have raised domestic gas prices to world levels and encouraged drivers to switch to more economical vehicles. Although he is a climate-change skeptic, Lutz says he would raise gas taxes by 25 cents per gallon annually until parity with other countries was reached, just to reduce the country’s dependence on foreign oil. In addition, he blames the U.S. government for allowing Japan to maintain an undervalued yen for many years, granting its auto companies a strong foothold for exports before they established U.S. manufacturing operations.

Lutz is equally scathing in his denunciation of the media for what he considers its knee-jerk badmouthing of domestic cars. And notwithstanding his own MBA, he reserves his heaviest salvos for business schools. He argues that their sense of academic inferiority has led to the “needless intellectualization” of business — an economics-influenced perspective from which the customer is never discussed. As a result, the customer has become a “hapless victim” of “MBA bean counters”; any successful products are likely to be value engineered (read: cheapened) to generate short-term gains and long-term disasters. “Rather than bask in the false belief of the superiority of American business education, the big business schools should be asking themselves how and why it all went wrong,” he declares. “They have produced generations of number-crunching, alternate-scenario-loving, spreadsheet-addicted idiots-savants. They should be ashamed.”

Bob Lutz’s charisma comes through in his writing, and it’s easy to see how he became an icon in the

industry and the champion of car guys everywhere. In the book’s next-to-last chapter, he speculates on what he would have done had he become CEO of GM, although he points out that boards of directors typically don’t appoint “creative right-brainers” to that post. He would have focused on products first and foremost, creating joint ventures for R&D, and done everything possible to eliminate superfluous activities, scrapping the hallowed PMP and reducing the power of product planning. GM’s current leaders may agree. Lutz was retained by the company on a part-time consultancy basis a few months after the book was published.

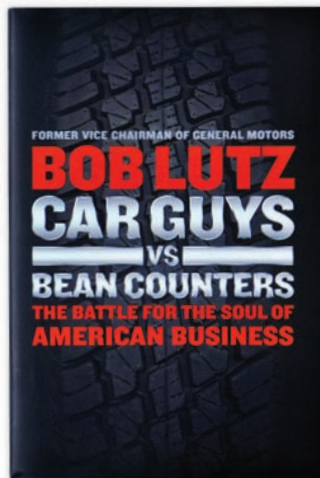
Lutz wouldn’t have acquired many of the car companies that GM actually purchased, but he says he would have bought Chrysler for the significant savings the two companies could have realized in scale and scope. As for trimming the too-numerous GM brands and the inefficiency of GM’s sprawling dealership network, he acknowledges that Chapter 11 was a huge enabler in this regard, allowing reductions in both.

Lutz also contends that in the car business, a knowledgeable, autocratic management style is much more effective than the bland “‘respect other people’s emotional equity’ approach that so long characterized GM.” But he places the emphasis on *knowledgeable*; executives must be steeped in the business

and have almost infallible “taste, skill, intuition, and sense for the customer.” He may be right for the car business, although the constraints on unilateral action, even by the CEO, in pre-bankruptcy GM must have been formidable. Lutz’s broader recommendation that U.S. companies need to throw out the intellectuals and get back to business will probably not be heeded, but his pragmatic warning that schemes that appear sound in theory often fail in practice is bolstered by many of the findings from behavioral economics, and managers will ignore them at their peril.

The Parasite Hunter

Roger L. Martin, dean of the Rotman School of Business at the University of Toronto, is fighting to change the way we think about and teach management. His newest book, *Fixing the Game: Bubbles, Crashes, and*



What Capitalism Can Learn from the NFL, has its origins in a fine, prescient article he wrote for *Barron's* in 2003 and is one of the very few business books that is better for the expanded treatment.

Martin sets out to show why capitalism in America has gotten into trouble over the past few decades. He argues that agency theory, derived from neoclassical economics, together with the gospel of shareholder value, has led to managers being compensated for doing the wrong things. Stock-based compensation, for example, focuses executives on expectations markets rather than real markets, where customer value is created. It is this focus on maximizing what should be an ancillary goal that has led to the marginalizing of customers as “marks” to be exploited.

Martin says that executives fix the game of business and try to manage expectations in much the same ways professional athletes would, if they were allowed to bet on games in which they play. Executives indulge in the business equivalents of “point shaving” (sacrificing a few points of advantage to win a game by a lower margin than expected) and “tanking” (making results appear worse than they are to lower expectations and make beating them easier).

The unintended consequence of agency theory, according to the author, has been the creation of a business environment that is akin to a casino, with zero-sum gambling games in which executives win and everyone else loses. Hence the lessons that capitalism (presumably in the guise of regulators) can learn from the National Football League (NFL): Keep real and expectations markets separate (players are banned from gambling), and focus on creating customer value, continually adjusting the playing field to ensure that the players concentrate on improving their performance in the real game.

This real game should be a positive-sum one that has meaning and motivation. Martin thinks that transactional communities have largely replaced the communities of long-term interest, with which public company executives once identified and to which their companies once catered. This has forced executives to lead inauthentic lives, becoming people that they are not, in

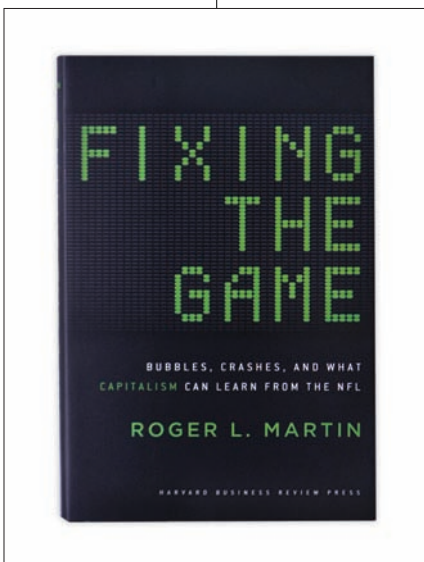
order to satisfy the desires of an unhealthy, insatiable community of gamblers and speculators. Martin would restore authenticity by having executives focus on creating customer value, a worthy, challenging goal that includes providing a fair return for shareholders.

Many readers will consider Martin’s battle plan radical. One of his immediate recommendations is the repeal of “safe harbor” provisions that protect company executives from accepting accountability for their forecasts. He also suggests that accounting rules such as FASB 142 (which mandates goodwill write-downs if share prices fall) be amended to focus only on changes in real markets, removing the need to manage expectations to avoid write-downs. He also wants to outlaw stock-based compensation except for long-term grants that would vest only several years after the recipient’s retirement. Anything less, Martin writes, will lead to bubbles and crashes, more corporate scandals, and lower shareholder returns.

Martin turns his attention to corporate governance by contrasting the murky state of governance in Major League Baseball (MLB) — where the commissioner is also an owner — with that in the NFL. He finds that the NFL has shown continuity, purpose, and diligence in the provision of a compelling customer experience. In contrast, MLB has not focused on its

customers, running the league for the benefit of the owners and players rather than the fans. As a result, growth in the popularity of football has outpaced that of baseball over the past three decades.

The problem with corporate directors, who Martin likens to the MLB governors, is that they lack both the capability and the incentive to serve outside stakeholders. This leaves them susceptible to the same temptations as executives — perquisites, compensation, prestige, and so on — all of which makes it highly unlikely that they will oppose the CEO on behalf of outsiders. He would have the job descriptions of directors changed so that they focused on customer value and public service, with directors acting like judges, protecting the long-run interests of the community at large, rather than the narrow interests of shareholders. However, the mechanism for this change is unclear.



In the book's penultimate chapter, the author attacks the hedge fund industry and its 2/20 fee formula (2 percent of assets under management and 20 percent of any gains), which he characterizes as predatory. In venture capital and leveraged buyout contexts, the formula is acceptable; any upticks can come only from an increase in real value. In the zero-sum world of hedge funds, however, gains come only if others lose. Thus, Martin believes that hedge funds perform no socially useful function, promote market volatility, and are parasitic. He recommends that they be outlawed or, failing that, taxed to suck excess profitability out of the industry and compensate the community at large for the damage they cause. It's bold recommendations like these, backed by reasoned arguments — together with Martin's call for collective action to protect capitalist society's civil foundations — that make *Fixing the Game* my pick for the best management book of the year.

A Resurrected Russian

In *Adapt: Why Success Always Starts with Failure*, Tim Harford, an economics columnist for the *Financial Times*, describes the economy as “an evolutionary environment in which a huge variety of ingenious profit-seeking strategies emerge through a decentralized process of trial and error.” His key conclusion is that evolution is much smarter than we are; therefore, to be successful we must use evolutionary methods.

An evolutionary perspective means, as the book's subtitle states, that success invariably begins with failure. Harford devotes his book to exploring the implications of this idea for organizations and individuals, illustrating his conclusions à la Malcolm Gladwell, with a wide-ranging collection of anecdotes that are often drawn from studies of dysfunctional economies and organizations.

The hero of the book, to whom the author continually returns, is Peter Palchinsky, a brilliant, stubborn, opinionated Russian engineer who was an economic advisor to the tsar and then to the Soviet government, before being executed by the Communists in 1929. His crime was that he saw too clearly that centralized control over economic development could not work, because it did not permit variation and selection — the critical processes of evolutionary adaptation.

Harford identifies three Palchinsky-esque principles for success: “first, seek out new ideas and try new things; second, when trying something new, do it on a scale where failure is survivable; third, seek out feedback

and learn from your mistakes.” This sounds simple, but applying these principles is more difficult than it seems, as the author shows by tackling some of today's major political, economic, and social challenges.

For instance, Harford uses the invasion of Iraq to demonstrate how a refusal to learn from mistakes and adapt led to a failure in the city of Tal Afar — a near-rout that was rescued from disaster only through an improvised experiment. The conductor of this experiment, which harnessed the efforts of the locals to expel the terrorists, was Colonel H.R. McMaster, another of Harford's heroes and a veteran of the Vietnam War.

McMaster wrote a definitive examination of the failures of leadership in Vietnam, which showed how Lyndon Johnson and Robert McNamara had enforced a rigid hierarchy, insisted on unanimity, and put too much faith in the centralization of data and the use of quantitative methods for analysis. (Their story sounds eerily like the actions of the senior executives at GM that Bob Lutz describes.) It's instructive, too, that in the process of winning over the local insurgents in Tal Afar, McMaster makes enemies of his superiors and is repeatedly passed over for promotion to brigadier general, an omission that was recently remedied by McMaster's like-minded boss, General David Petraeus.

A short review cannot do justice to all the perspectives that Harford uses to illustrate the application of Palchinsky's principles. He discusses how new ideas can be created, how to conduct experiments to tease out the webs of cause and effect, and the multiple ways in which leaders can profit by admitting failure and learning from experience. My only criticism is that at times Harford appears to regard variation as the opposite of standardization, with the implication that “uniformly high standards are not only impossible but undesirable.” Certainly this is true of mindless standardization for the sake of uniformity, but it is not true of the rigid but mindful standardization of approaches like the Toyota production system, where standards form the foundation of the controlled experiments that take place on the factory floor every hour of every day. Without such standardization, there can be no helpful variation. One feels sure that Peter Palchinsky would agree.

An Exciting Future

For much of the 20th century, American management was preoccupied with managing growth and the burgeoning scale of corporate operations. By and large, organizational solutions such as decentralization, func-

tional specialization, and hierarchy were successful in meeting the challenge. Now that challenge has changed, and management, especially in the West, is engaged in a struggle to reinvent itself and its institutions.

Neoclassical economics, which provided managerial logic and legitimacy in the last century, is less and less relevant. It doesn't answer questions about how to create value, for instance, and its assumptions of market equilibrium are unhelpful. In fact, for many companies, market failure is no longer an aberration, but a starting point and a source of opportunities.

The actions taken to exploit these opportunities will not necessarily benefit the community as a whole. Indeed, as we have seen throughout history, market failures can be fertile ground for antisocial and even criminal enterprises. So, along with the field of innovation, the whole philosophy and practice of regulation will

have to be rewritten.

These tasks will require evolutionary and behavioral perspectives that enable us to better understand the origins and actions of institutions, markets, and firms. Management scientists may even become a little more humble, with a renewed respect for and interest in entrepreneurs and their practical wisdom. This year's best business books on management lay out the battle lines. +

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is a contributing editor to *strategy+business* and author of its Books in Brief column. His writing has also appeared in the *Harvard Business Review*, the *Financial Times*, and other leading business publications. Hurst's next book, *The New Ecology of Leadership*, will be published by Columbia University Press in the spring of 2012.

Michael Spence, **The Next Convergence: The Future of Economic Growth in a Multispeed World** (Farrar, Straus and Giroux, 2011)

Jeff Madrick, **Age of Greed: The Triumph of Finance and the Decline of America, 1970 to the Present** (Knopf, 2011)

Sylvia Nasar, **Grand Pursuit: The Story of Economic Genius** (Simon & Schuster, 2011)

ECONOMICS

A Dismal Outlook?

by David Warsh

IT'S BEEN A GOOD YEAR for economics books. Autopsies on the economic crisis of 2008 continued to tumble out in 2011, some of them quite compelling. But it is clearly time to look to the future, and a spate of notable books describing the changing profile of the global economy did just that, including *World 3.0: Global Prosperity and How to Achieve It*, by Pankaj Ghemawat (Harvard Business Review Press, 2011); *The Post-American World: Release 2.0*, by Fareed Zakaria (W.W. Norton, 2011); and *The Globalization Paradox: Democracy and the Future of the World Economy*, by Dani Rodrik (W.W. Norton, 2011).



Other books, which were partially eclipsed in the rush to reset our horizons, explored interesting topics outside the center ring, including *The Price of Everything: Solving the Mystery of Why We Pay What We Do*, by Eduardo Porter (Portfolio/Penguin, 2011), and *The Economics of Enough: How to Run the Economy as if the Future Matters*, by Diane Coyle (Princeton University Press, 2011). All are worthy books.

But three of this year's economics books are especially good. One — *The Next Convergence: The Future of Economic Growth in a Multispeed World*, by Michael Spence — looks forward, providing what is likely to be a durable framework for thinking about the global economy. The other two — Jeff Madrick's *Age of Greed: The Triumph of Finance and the Decline of America, 1970 to the Present*, and Sylvia Nasar's *Grand Pursuit: The Story of Economic Genius* — look backward, in compelling, insightful, and highly readable ways.

From G-7 to G-20

Spence's *The Next Convergence*, my choice for the year's best business book on economics, starts with simple arithmetic: China and India represent about 40 percent of the world's population. Their combined GDP is growing at an annual rate of 7 percent or more; India is perhaps 14 years behind China on the curve. Their growth will slow in another two or three decades, as they finish the process of converging with the present-day industrial countries. By then, they will have become economic giants.

Indeed, Spence calculates that the world will have a global GDP that is four times as great as what it is now. But what kind of a world will a US\$240 trillion global economy create? That is the question Spence seeks to answer in this book.

A considerable deepening of economics has taken place during these last 40 years, a process in which Spence has been an active participant. In 2001, he shared a Nobel Prize for contributions to the economics of information. By then he'd been drawn off into university administration — including nine years as dean of the Graduate School of Business at Stanford University. In the middle years of George W. Bush's presidency, when Deputy Defense Secretary Paul Wolfowitz was posted to the World Bank with the goal of rethink-

ing its agenda, Wolfowitz turned to Spence as an honest, independent broker of ideas whose views would be of interest to leaders of nations all around the world.

Thus began the Commission on Growth and Development, an ambitious project designed to bring senior political leaders and policymakers from 18 nations (such as Zhou Xiaochuan, governor of China's central bank, and Montek Singh Ahluwalia, deputy director of India's planning commission) together with the world's leading economists (Robert Solow and Robert Lucas, for example). For four years, the commissioners traded visits to one another's countries and elicited expert testimony, building a cautious case for openness and trade. Unfortunately, their report fizzled after Wolfowitz was forced to step down over an impropriety. Spence,

Economic growth has always occurred in parallel with the development of new political, legal, and regulatory institutions.

however, soldiered on and produced this compelling *tour d'horizon* based on his experiences as chair of the commission — a view more or less from the quarterdeck of the global economic system. Except, Spence says, that there is no proper quarterdeck — at least not yet.

It used to be so simple. At the end of World War II, there were the industrial countries with 750 million people — 15 percent of the earth's population — and there were another 4 billion people living in poverty, divided about equally among the Communist nations, a Second World determined to catch up, and the Third World, whose very name implied a bleak distance from the others. Yet already in 1945, the seeds of change had been planted. For 30 years Japan led the way; then, soon after the death of Mao Zedong in 1976, China abandoned autarky and set out to join the world economy. It was not long before underdeveloped countries gradually became less underdeveloped and emerging nations became newly industrializing ones, until, suddenly, there were the BRICs (Brazil, Russia, India, China).

The latest phase of global growth and development accelerated dramatically after 1980, but why? Certainly, shorter lines of communication had something to do with it. Spence devotes a chapter to the advent of the

computer, spawned during World War II, and the Internet. By 2011, he writes, 4.5 billion people — two-thirds of the world's population — had cell phones.

Many problems arise from these different growth rates. Some have already become clear, as Spence outlines in a series of chapters: financial imbalances, pressure on resources and the environment, the continuing attenuation of middle-class jobs and incomes in Europe and the United States. These problems lead to major questions: Can Western economies continue to find new sources of growth? Can the environment stand a fourfold increase in the ranks of the wealthy? Will there be enough food and fuel? What about climate change? Are there other kinds of social and cultural brakes that may slow or even fracture the prospects for global growth? What if every important nation feels it must have its own banking, agricultural export, automotive, and aerospace industries? If everyone tries to do the same thing, it won't work.

Spence has something interesting to say about each of these questions; offers additional observations on the internal dynamics of China, India, and Brazil; and still devotes a quarter of the book to an examination of the financial crisis and its aftermath. The fact that *The Next Convergence* covers so much ground means that it has little time for the folksiness and redundancy that make for easy reading. The payoff is coherence — the argument of the book fits together as tightly as the formal models that Spence once built for a living.

As for globalization, Spence thinks that the benefits of open trade have been oversold, and its potentially adverse distributional impacts too easily brushed aside. So for the next few years, expect a volatile world, he says, especially given the magnitude of recent economic shocks. Once the advanced countries regain their confidence, however, he predicts that the dynamism of the developing countries should produce a strong new wave of expansion — and bring us back to the problems of multispeed growth.

None of the associated problems will be satisfactorily solved without the advent of new forms of cooperation, says Spence, starting with the Group of 20, the

finance ministers and central bankers of 19 nations and the European Union. There's nothing especially controversial about that: Economic growth in the past has always occurred in parallel with the development of new political, legal, and regulatory institutions, and mostly through trial and error. Whether the evolution of governance will keep pace remains to be seen.

Lapsing into the sparse lingo of game theory (which helped him win his Nobel Prize), Spence ends *The Next Convergence* by writing, "This is a cooperative game on a giant scale we are trying to learn how to play, a complex one because of the asymmetries among the players. The chances that asynchronous moves and separate agreements on distinct issues will lead to a fully cooperative outcome are very low. More likely is a non-cooperative outcome with attendant suboptimal results and instability. A bumpy road to a new and not very attractive normal." His superior description and analysis of those high stakes are the main reasons to read this book.

A Rorschach Test

Whereas *The Next Convergence* peers 40 years into the future, *Age of Greed* looks back over 40 years of the American past. It is a page-turner that, through a series of profiles of financiers, politicians, economists, and central bankers, presents a powerful polemical history.

And it's all true, as far as it goes. In this, *Age of Greed* resembles a famous issue of *Institutional Investor* published in 1987 that contained capsule stories of 50 celebrated financial entrepreneurs. Yet Jeff Madrick, the book's author, like the editors of the glossy money manager fan mag, keeps you on your toes, asking yourself what he's leaving out. Like liquor and candy, strongly emotional presentations take you only so far, but that is no reason to eschew them altogether.

Madrick's proposition is that an age of greed began in 1970, when various Roosevelt haters, John Birchers, devotees of Ayn Rand, and economic ideologues of the Mont Pelerin Society (chiefly Milton Friedman and Friedrich Hayek) began to gain influence. Their movement gathered force until, with the election of Ronald Reagan, the gates burst open and the barbarians flooded through to put the nation on "an unfortunate, tragic



path from which it may not be possible to turn back.” Thus, the book is divided into two parts, “Revolution,” up to 1980, and “The New Guard,” about those who took over after the barriers had been battered down.

What makes the book so entertaining is that each life Madrick offers is highly interesting on its own. Who knew that Walter Wriston’s father had been president of Brown University, or recognized that the young banker had drawn a bead on the Glass-Steagall Act practically from the beginning of his career at First National City Bank, today’s Citi Group? (He was 28 when he began lending to Aristotle Onassis.) Who understood the utter centrality to the 1980s of lawyer Joe Flom, to whom Madrick assigns a riveting chapter? Or the common denominator — scale as strategy — that Ted Turner, Sam Walton, and Steve Ross employed to build their businesses? Tom Peters, Jack Welch, Michael Milken, Alan Greenspan, George Soros, John Meriwether, Sandy Weill, Ken Lay, Jack Grubman, Angelo Mozilo, Jimmy Cayne, and Richard Fuld — they’re all here. And to Madrick, they are all undeniably greedy, for something or other.

Yet, as readable as the book is, there is something unsatisfying about it. Madrick is, after all, a paleo-liberal. He edits *Challenge* magazine and writes regularly for the *New York Review of Books*.

Perhaps that’s why you won’t find President Barack Obama’s famous acknowledgment of Reagan’s role as a transformational president anywhere in this book. And there’s no Cold War. Madrick notes that the American mistrust of major institutions — government, religious, business, and educational — accelerated during the Vietnam War, but says nothing about the rhetorical and ideological effects of the United States’ successful competition with the former Soviet Union. Nor does the rise of China figure in the story. There’s no Bill Gates, either — no sense of the pervasive technological change that has been the background to so much institutional and social turbulence. And several characters whose careers would have lent fiber to his account are missing: Bruce Henderson of the Boston Consulting Group, Ronald Coase of the University of Chicago, Michael Jensen of Harvard Business School, and, for that matter, former

House Speaker Newt Gingrich.

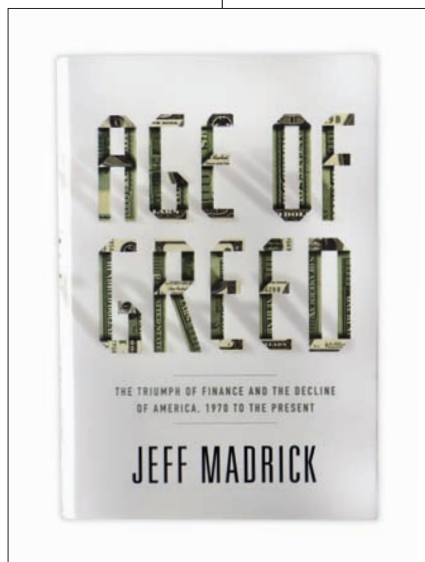
It’s commonplace for political sentiment in the U.S. to swing back and forth between private involvements and public purposes, but Madrick doesn’t give much credence to that view. He thinks events covered in the book may be irreversible. But my hunch is that political change is already in the works and that *Age of Greed* could impart roughly the same kind of momentum to that change as Gustavus Myers’s *History of the Great American Fortunes* did in the muckraker movement a century ago. In any event, Madrick has created a wonderful economic Rorschach test.

Lords of Economics

A couple of years ago, Liaquat Ahamed’s *Lords of Finance: The Bankers Who Broke the World* (Penguin Press, 2009) became a resounding bestseller. If you liked that story — about four central bankers whose efforts to maintain the gold standard dominated the years after World War I until their efforts finally came undone in the Great Depression — you’ll love *Grand Pursuit*, for Sylvia Nasar has done something similar. (See “Sylvia Nasar: The Thought Leader Interview,” by Rob Norton, *s+b*, Autumn 2011.)

In Nasar’s first book since *A Beautiful Mind* (Simon & Schuster, 1998), the best-selling biography of math genius John Nash, she turns a long-ago adventure into a compelling story for the present day. It is about a handful of economists who, in the long century between 1848 and 1960, transformed the discipline from a counsel of despair into “an instrument of mastery.” The story’s heroes are Alfred Marshall, Irving Fisher, John Maynard Keynes, Friedrich Hayek, and Joseph Schumpeter; its villains are Thomas Robert Malthus and Karl Marx.

The story unfolds in three acts of economic narrative that Nasar labels Hope (1843–1911), Fear (1914–1939), and Confidence (1945–2007). In 1848, Europe tottered on the brink of revolution. Malthusian reasoning about the tendency of the human population to outstrip its food supply dictated harsh terms for relief of the poor. Charles Dickens is a surprising entrant here; his much-loved *A Christmas Carol*, from 1843,



with its images of plenty, turns out to be a tract against economic pessimism. Journalist Henry Mayhew wages a spirited campaign in London's *Morning Chronicle* to persuade political economy to "take some little notice of the claims of labour" and provide higher pay and better working conditions. But not until Alfred Marshall (and others) took up the cudgels was new life breathed into a faltering discipline. "Before 1870 economics was mostly about what you couldn't do," Nasar writes. "After 1870, it was mostly about what you could." World War I, with its shocking carnage and cruel aftermath, leading 15 short years after its outbreak to the Great Depression, cast the world into despair — but not Keynes or his great rival, Hayek, who in the 1930s both experienced periods of intense creativity. In their very different ways,

President Harry Truman's experience in World War I and Soviet Communism than with any reading of Hayek or Keynes. That doesn't mean economists were useless, rather that it took somewhat longer for their investments to pay off. A grand pursuit indeed!

Nasar's book is unlikely to become a movie (*A Beautiful Mind* did). But, in her telling, the lives and times of economists make awfully interesting reading.

There are books you read for work and books you read for pleasure, and there is a world of difference between the two. Work books are those you feel you have to muscle through in order to understand the changing world, and you do the reading when you can. Pleasure books are slower, longer reads, to be savored during summer vacations or night after night before bed in the winter. Spence is the work reading; save Madrick and Nasar for your leisure hours. +

"Before 1870 economics was mostly about what you couldn't do," Nasar writes. "After 1870, it was mostly about what you could."

they led the developed nations into the sunlit uplands of postwar prosperity. (Brief chapters on Paul Samuelson, Joan Robinson, and Amartya Sen conclude the book.)

Grand Pursuit is clearly meant to buttress Keynes's famous claim that "the ideas of economists and political philosophers...are more powerful than is commonly supposed; indeed the world is ruled by little else," but I am not so sure Nasar makes the case. Her worldly philosophers often look more like rubberneckers sallying forth periodically to observe and rationalize the concrete achievements of the world's more practical sorts. The rising living standards that Marshall sought to explain owed more to the makers of the Industrial Revolution and the public health movement than to readers of his *Principles of Economics*. Lloyd George surely derived more inspiration from Otto von Bismarck, who invented the modern welfare state in the process of unifying Germany, than from Fabian Socialists Beatrice and Sidney Webb, who cofounded the London School of Economics. Recovery from the Great Depression stemmed more from preparations for World War II than from any deliberate application of Keynesian principles. And the Marshall Plan that helped Western Europe clamber back to its feet had more to do with

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MARKETING

Marketing Reenvisioned

by Catharine P. Taylor

AT FIRST GLANCE, the three best business books of 2011 on marketing seem to go in very different directions. However, they do share one trait: They pay only lip service to marketing. A couple of decades ago that might have disqualified them from consideration, but these days, a surprising number of marketing books aren't all that high on marketing.

Most of those books' authors say that marketing, as it's been practiced since the dawn of paid media, doesn't really get to the heart of the challenges that brands face today. In fact, although it's still true that most major marketers spend tons of money on advertising — U.S. advertisers spent about US\$9 billion in this year's network TV “up-front” — the references these books make to advertisements, if they appear at all, are almost entirely incidental.

The real action is in the much tougher arena of rethinking the companies that sell the brands. So, in *We First: How Brands and Consumers Use Social Media to Build a Better World*, brand consultant Simon Mainwaring ponders the role of the corporation in addressing the world's ills, tackling such topics as charitable giving, environmentalism, and sustainability. In *Brand Relevance: Making Competitors Irrelevant*, David A. Aaker, professor emeritus at the University of California at Berkeley's Haas School of Business, looks at how companies can build brands that aren't just new and improved, but unequalled. And in *The Thank You Economy*, wine-selling social media guru Gary Vayner-



chuk advocates that marketers build a culture in which “good intent” is paramount. In each case, the authors emphasize that making these things happen requires fundamental shifts in corporate culture, not just marketing window dressing.

Yes, marketing is no longer about simple brand repositioning, but about corporate reinvention. Thus, it's more than coincidence that all three books have something else in common: They chastise marketers about their focus on the short term at the expense of the long term — not surprising given that the kind of corporate reinvention these authors describe could take years, courage, and, in many cases, substantial investment. And not just in the marketing budget.

Marketing Ideals

We First is that rare marketing book that is truly visionary. It is also sure to be controversial, because Simon Mainwaring takes trends such as green marketing, cause marketing, and corporate social responsibility and pushes them to their farthest extreme, urging corporations to stop pursuing profit for profit's sake and instead refocus their efforts on pursuing profit by benefiting the world. (This, of course, flies in the face of one of the basic beliefs of certain economists, perhaps summed up most succinctly in Milton Friedman's provocative 1970 essay titled "The Social Responsibility of Business Is to Increase Its Profits.")

If it sounds like Mainwaring is making a plea for environmental sustainability, that's just the tip of his very large iceberg. He is also questioning whether it's time for corporations to rethink employee compensation, including that of the CEO, to reconsider the impact of using tax havens to shield profits, and even to think about how they might help put shoes on children in poor countries, as Toms Shoes has done with its "One for One" program.

Mainwaring is calling for a "We First" economy (an interesting bit of branding given that it is also the name of his consulting firm), and he proposes it as a response to Bill Gates's call for "creative capitalism" at the 2008 World Economic Forum. Unlike the current economy, the We First economy "is a comprehensive system of mindful consumerism in which *every single transaction* for products and services would include a contribution toward building a better world," writes Mainwaring. "Profit for profit's sake is a mindset that drives too many investors, businesses, and corporations to neglect three critical issues that We First capitalism seeks to change: one, the methods of producing profits; two, the consequences of profits, and three, the social implications of profits."

Yes, that shouting you hear in the background is coming from people at a certain end of the political spectrum, crying: "Socialist!" (Or maybe even "Communist!") But to jump to that conclusion about Mainwaring, and his book, would be to fundamentally misunderstand what he's talking about. A former creative

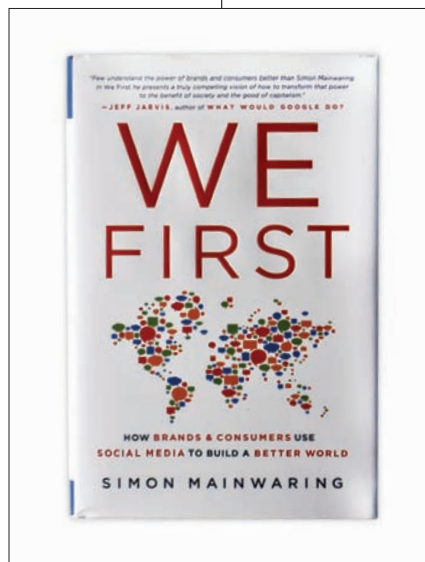
director at Ogilvy & Mather on the Motorola account, and also on the Nike account at the revered ad agency Wieden + Kennedy, Mainwaring hasn't abandoned capitalism. Instead, he contends that a We First approach is needed to save capitalism, if for no other reason than that humanity is consuming the earth's resources faster than they can be regenerated. Rethinking compensation, as another example, is not about redistributing wealth but making sure that people have money to buy things. "The basis for this principle is less a moral argument than an economic reality: without a reasonably prosperous middle class in any society, the engine of capitalism falters," asserts Mainwaring.

Fortunately, once Mainwaring abandons some of the preachiness that occasionally drags down *We First*, he offers plenty of examples of companies that are already practicing We First capitalism. Like many other observers, he lauds Wal-Mart Stores Inc. for embracing rigorous environmental values — such as using 100 percent renewable energy — and pushing those standards down through its vast supply chain. But the retailer's environmental initiatives mean it is meeting the mark on only one of Mainwaring's five domains of sustainability. His broad definition of the term also encompasses economic, moral, ethical, and social values. To meet those standards, Walmart would have to, among other things,

pay its associates more and offer them more reasonably priced health benefits.

By now, you're probably wondering what all this has to do with marketing, or with the social media-driven consumers referred to in the book's subtitle. Mainwaring says that We First capitalism is what they demand. In reaching this conclusion, he relies heavily on the 2009 "goodpurpose" survey from public relations firm Edelman. According to the survey results, 83 percent of consumers are willing to change how they consume to make the world better and 64 percent wouldn't mind recommending brands that support good causes. If that's the case, the role of social media is an obvious amplifier of word of mouth.

But Mainwaring's bigger point about social media lies in how consumers are using it to push companies to-



ward more responsible practices. Consumers and Greenpeace, he explains, successfully used social channels to pressure Nestlé and Cadbury to stop buying palm oil — a key ingredient in chocolate bars — from suppliers that were involved in deforestation. When the initial actions taken by the two companies weren't enough, social media helped push both of them further. Although Nestlé and Cadbury were playing defense in this case, it's easy to see how a company could proactively change its practices to better align with the We First philosophy and use that as a marketing differentiator.

The vision presented in *We First* is huge and probably too idealistic for most companies to fully implement. But that doesn't matter. It's the best marketing book of the year because anyone who reads it will begin to question how his or her company does business, and that's the initial step to change.

Brand Power Redefined

The first thing a reader notices about *Brand Relevance* is how many of today's power brands have already made good on its central concept: Brand preference has long ceased to be a powerful driver of marketing success. Brand success, therefore, requires something more. That something, according to David Aaker, now vice chairman of Prophet, a marketing consulting firm, "is to redefine the market in such a way that the competitor is irrelevant or less relevant, possibly by making the competitor's strengths actually become weaknesses." This requires creating brand relevance by carving out a new category or subcategory for your offering that has these key characteristics: a weak or nonexistent competitor set, a distinctive definition, a value proposition, a loyal customer base, and, perhaps most importantly, barriers to competition.

In defining the characteristics that enable some brands to surge past others, Aaker brings an academic's eye to the question of why some brands transcend their markets, and the result is a book thick with examples and lessons. One of the prime examples that Aaker uses to describe brand relevance is, of course, Apple Inc., particularly its roster of "i" products. Not only are they great products in and of themselves, he writes, but they also create substantial barriers to entry that keep other brands from competing directly. Nowadays, there are

plenty of smartphones besides the iPhone, MP3 players besides the iPod, and tablets besides the iPad, but Apple's products are also part of the larger iTunes ecosystem of audio, video, and apps. That's quite a barrier. As Aaker points out, each Apple innovation also builds on existing ones, to make the company a "moving target," which is a core component of ensuring that a brand is continually relevant.

Aaker also writes extensively about other breakout brands, such as Toyota's Prius, but many of his example products are decidedly more prosaic. If you market toothpaste, you will be able to read this book and get ideas for how to break out of the mold. (In fact, Aaker devotes specific attention to the toothpaste category.)

Additionally, the book offers a comprehensive look

Zipcar "provides a way to cope with urban living." It's hard to see how an Avis or a Hertz could capture the same magic.

at the kinds of factors that can make a brand relevant, which sometimes means looking at an established category such as car rentals in an entirely new way. Aaker cites Zipcar Inc., whose founders recognized that sharing a car makes more sense than owning one for some people, as probably the brightest example of the brand relevance concept.

Started in 2000 in Boston, Zipcar had 350,000 members and 6,500 vehicles by 2010, focused mainly in urban centers and on college campuses. Members can reserve cars minutes before they need them, anytime, day or night. Although Aaker points out that the rest of the industry has responded by developing "more flexible" ways to rent, Zipcar has maintained its relevance not only because of its service, but because "rather than being about renting cars, [Zipcar is] about urban life and the freedom of not owning and maintaining a car but still having access to one. In that spirit it provides a way to cope with urban living in a fun, upbeat, and environmentally sensitive way." It's hard to see how an Avis or a Hertz could capture the same magic, even if it had programs that offered identical benefits.

Other ways that brands can be relevant include providing a unique customer experience (Starbucks), being

a brand that offers “over-the-top service” (Zappos), and, in an unintended tip of the hat to *We First*, aligning themselves with some greater good.

It’s clear from these examples that the ability to make brands relevant involves much more than the marketing department. Thus, Aaker devotes the book’s last chapter to dissecting cultures of innovation, such as General Electric’s. Among other initiatives, the company inaugurated an Imagination Breakthrough program in 2003, which charges every GE business with proposing new products and services that could make \$100 million within three to five years. “The rude fact is that not all organizations allow ideas to emerge, nurture those ideas, and implement them in the marketplace,” he explains. Brand relevance may be a relatively simple concept; building it is not.

Mind Your Manners

If you decide to read all three of this year’s best marketing books, Gary Vaynerchuk’s *The Thank You Economy* would be a good palate cleanser between *We First* and *Brand Relevance*. The other two books can be ponderous at times, but this book is anything but — as befits something written by a self-made social media superstar. Vaynerchuk’s personal Twitter account, @garyvee, has almost 900,000 followers. The charismatic Vaynerchuk also has the requisite YouTube channel, made 1,000 video posts on his now-inactive Wine Library TV blog, and is a frequent and popular speaker at digital conferences.

Vaynerchuk’s book is as conversational as his various feeds. Explaining the now-famous Old Spice Man social media campaign, in which former NFL player Isaiah Mustafa interacted directly via social media channels with individual people, he enthuses: “With this campaign, Procter & Gamble... showed the world how a brand can play a kick-ass game of media Ping-Pong.” (More on what he thought were the campaign’s shortcomings in a minute.)

So what is the Thank You Economy? It’s today’s consumer-driven, social media-enabled economy, in which Vaynerchuk declares, “Only the companies that can figure out how to mind their manners in a very old-fashioned way — and do it authentically — are going to

have a prayer of competing.”

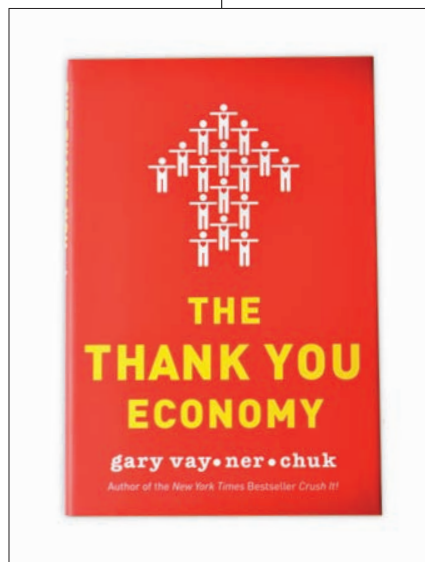
Whereas *We First* argues that consumers are demanding more accountability from corporations in how they operate within the world at large, Vaynerchuk turns the premise inward. No matter how large the business, he says, companies can and should delight individual customers, who are becoming ever more discerning about how corporations should treat them. Drawing from his own experience, he asks: “How else do you think I outsell Costco locally and Wine.com nationally?... The real success of Wine Library wasn’t due to the videos I posted, but to the hours I spent talking to people online afterward, making connections and building relationships.”

Which points directly to Vaynerchuk’s disappointment with the Old Spice Man campaign, even though it is viewed in the ad industry as one of the most successful social media campaigns to date. As far as the Thank You Economy is concerned, he says P&G dropped the ball because the brand didn’t use its new following in social channels to build an ongoing dialogue. “Every one of those people should have received an email, thanking the followers for watching the videos and offering them a reason to keep checking in,” Vaynerchuk says. He’s right. If building long-term relationships is the key to

sustaining a brand, than P&G missed a major opportunity. “They turned what had all the markings of a superb social media campaign into a one-shot tactic,” he complains.

In fact, although *The Thank You Economy* is full of anecdotes about how brands delight customers using tactics, Vaynerchuk goes to great lengths to explain that tactics work only as part of an ongoing engagement, an engagement that has to be more than superficial. As Aaker says in *Brand Relevance*, in order to differentiate a brand or a company, the employees have to live it.

For Vaynerchuk, that comes down to intent: “If you’ve ever considered embarking on a social media campaign, or even tried an initiative or two, what was your intent? Was your goal to get someone to click through or click the ‘Like’ button? Or was it to build your online identity and foster a connection between



yourself and the consumer?” You know the right answer.

Vaynerchuk’s book is full of commonsense advice, but it has a big flaw: It promises that building individual customer connections is scalable, but it doesn’t really explain how the biggest brands can build those connections. It could have used more case studies involving a Ford, or a Microsoft, or a Kraft. That said, Vaynerchuk is inspirational. *We First* and *Brand Relevance* are food for thought, but *The Thank You Economy* is food for the soul of marketers who aim to build long-term relationships with their customers.

In a world cluttered with brands and the media they support, traditional ways of messaging and targeting just aren’t getting the job done. And throwing money at the problem isn’t working. But as this year’s best marketing books show, companies can succeed if they market their brands in other ways — through the

“media” of buzz-worthy products, excellent consumer experiences, and outstanding customer service. Since that’s the case, these books contend, it’s time to reframe the discipline and move forward. +

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Ron Chernow, *Washington: A Life*
(Penguin Press, 2010)

Edmund Morris, *Colonel Roosevelt*
(Random House, 2010)

George W. Bush, *Decision Points*
(Crown Publishers, 2010)

LEADERSHIP

Learning to Lead the Old-Fashioned Way

by Barbara Kellerman

ONCE UPON A TIME, long, long ago but not so far away, leadership was learned by learning about leaders. More precisely, we learned to lead by reading about great men (nearly always they were men) and their exploits. As Plutarch’s *Lives* was the first to attest, the assumption was instruction — life history as a template for what leaders ought and ought not do.

The practice persisted for hundreds, even thousands of years; autobiography and, especially, biography were used as pedagogy. But some 30 or 40 years ago, the



age-old tradition nearly came to a grinding halt. Since the burgeoning of the leadership industry with its now countless centers, institutes, programs, courses, seminars, workshops, experiences, teachers, trainers, books, blogs, articles, websites, webinars, videos, conferences, consultants, and coaches, which all claim to teach people how to lead, biography as pedagogy has gone out of fashion. Replaced now by readings on leadership development, training, and education, the life histories of great leaders are decidedly old hat.

The present essay is unapologetically old-fashioned. It's about the best new books on leadership all right, but it omits from the discourse books explicitly about leadership, in favor of books implicitly about leadership: two biographies and a memoir. Furthermore, although this essay is intended for an audience composed primarily of private-sector leaders, it considers public-sector leaders — three American presidents who left legacies that, whether proud or problematic, endure. In other words, the books under discussion mark a return to leadership learning as a liberal art, a form of instruction as multifaceted and richly textured as it is deeply human.

Collectively, the books follow two trajectories. The first is chronological. The subject of Ron Chernow's *Washington: A Life* is the first president of the United States. The subject of Edmund Morris's *Colonel Roosevelt* is Theodore Roosevelt, who served as the 26th president, at about the midpoint in American history thus far. And in *Decision Points*, George W. Bush, the most recent ex-president of the United States, makes himself the book's subject. The second trajectory is life span. Although Chernow's book is, as its title implies, about George Washington's entire life, the biographer is smitten with the start of the story, with Washington before he became president. Bush's focus is on his time in the White House, on what he perceives to be the key crucibles of his performance as president. Finally, Morris's book, the third in his magisterial three-volume biography of Theodore Roosevelt, is not only about the illustrious post-presidency of "the Colonel" (as he preferred to be addressed in those years), but also, inevitably, about his decline.

Two of these authors are among the most distinguished of living American biographers: Chernow won the Pulitzer Prize for biography in 2011, for *Washington*; Morris won it in 1980, for the first volume of the trilogy, *The Rise of Theodore Roosevelt*. Chernow's is a doorstep of a book, but, again, he tells the tale in full, from Washington's birth to his death, and transforms him in the process from bland and boring icon into flesh and blood — a complex, commanding, and charismatic man who willed himself a hero. Morris's book is almost as thick, but less compelling, not because it is less well written or researched than Chernow's, but because in focusing on Roosevelt's post-presidency we are, by definition, deprived of the leader at the height of his powers. Still, the Colonel had one helluva post-presidency, and the book's value lies in its examination of how a great man winds down, or does not.

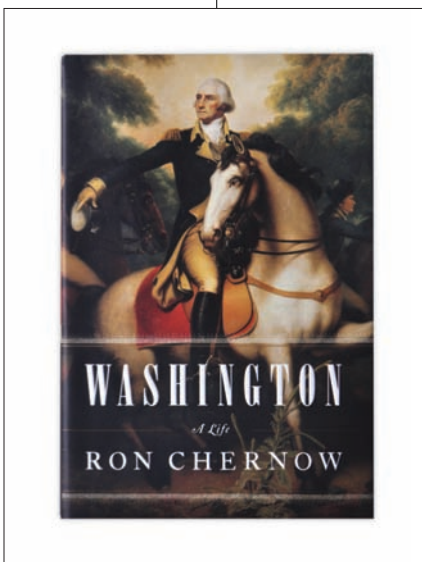
Bush's book is different. First, it is a political memoir, with all the subjectivity that this implies, not an objective biography. Second, it was written (with assistance) by an amateur who is famous for not being particularly literate. Finally, it is by and about a man who well into adulthood took more pride in being a good ol' boy than he did in being anything else. So, it is no surprise that *Decision Points* is prosaic in its construction, plain in its prose, and notably lacking in

self-reflection. But whatever its defects as a work of literature and critical analysis, Bush's book does give voice to the man we know: the ordinary Joe, the uber-Texan who, for reasons even he cannot artfully articulate, ended up spending eight years in Washington — as president of the United States.

History and Context

Assuming life stories are valuable sources of instruction, what leadership lessons do these three books provide?

First, history matters. All leaders ought to have some sense of what transpired in the past, of context (both immediate and distal), of who their followers are, and of how the leaders who preceded them played their parts. In reading these three books, I was struck by how Washington and Roosevelt profited from their liberal learning (much of it undertaken of their own volition),



and by how Bush was diminished by his relative lack of it, by his lack of information and ideas and, worse, by his lifelong lack of curiosity about people and places other than those with whom and with which he was already familiar.

Second, context matters. In fact, my own model of leadership is in the shape of a triangle with three equal sides: leader, followers, and context. Life stories of leaders are not merely life stories. They are, equally, stories about the times within which leaders lived. It does not belittle Washington to say his greatness was as much a product of his context as it was of anything else. Notwithstanding Chernow's thoroughly chronicled description of Washington as a man of great derring-do, who by dint of self-construction ascended beyond his own earliest imaginings, and who among his other gifts was an extraordinary physical specimen, this president also had the great good fortune of being born at the right time.

To consider Washington in context is to be reminded of that old chestnut: Great leadership is the result of great fit — between the person and the moment. Although Chernow's book has justly been praised for infusing its subject with a measure of passion, it is impossible to be indifferent to the multiple upheavals that constituted his subject's situation. This is not, in other words, a story of only a single struggle — by the Americans against the British — but of several struggles that began in the early 1750s and ended only in the late 1780s. What's more, because each of these conflicts had military as well as political components, it mattered a great deal that Washington was as brilliantly accomplished a military leader as he was a political one. In fact, his political leadership depended absolutely on the glory he achieved in the military.

Chernow, whose biography of Alexander Hamilton was chosen as an *s+b* best business book in this category in 2004, does not shy from what leadership theorists call the trait approach: Leaders become leaders because they possess in relative abundance certain traits, or characteristics, that propel them to the fore. George Washington had drive, courage, energy, integrity, and a high level of contextual intelligence. Chernow writes

that Washington had, in comparison with his peers, “superior presence, infinitely better judgment, more political cunning, and unmatched gravitas. . . . He had the perfect temperament for leadership.”

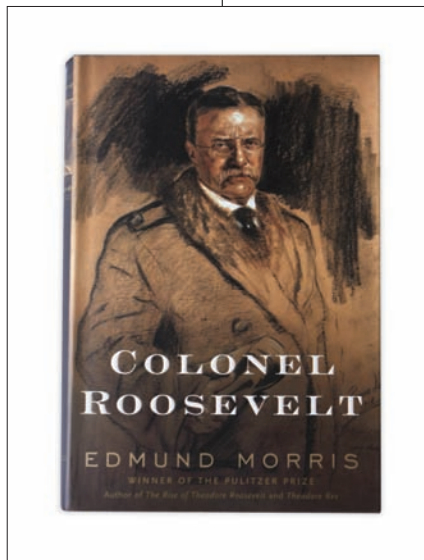
At the same time, however, consider the context in which he lived. For more than a quarter century, Washington played a leading role in each of several different dramas: in the French and Indian War, where he honed his military prowess while acquiring the political and diplomatic skills for which he later became renowned; during the First and Second Continental Congresses, where he nurtured personal and political alignments with members of the colonial elite; during the Revolutionary War, where, as commander in chief of the Continental army, he sealed his fame forevermore; during the Constitutional Convention, over which he famously presided with dignity and restraint; and, finally, as first president of the United States, a position to which he was unanimously elected by the just-established Electoral College.

Lust for Life

The third leadership lesson is that sometimes — not often, but sometimes — a single individual is unstoppable, a force of nature. Even past his prime, Theodore Roosevelt was such a man, a man of such brilliance and vitality, such stunning contradiction, such fierceness

in his love of life, that everyone else seemed to shrink in comparison, becoming pygmies in contrast to this giant of a figure. Since *Colonel Roosevelt* constitutes the final chapter in Theodore Roosevelt's life, it is more about his ostensible failures than his many successes. The biggest of these failures was his unsuccessful run for president on the ticket of the Progressive or Bull Moose Party, which he had founded for various reasons, not least to reclaim the pinnacle of power. As a result of his combativeness, he also became alienated from leading figures of the day, particularly political opponents, including his two immediate successors as president, William Howard Taft and Woodrow Wilson.

But it's hard to read this book and dwell on what TR did not accomplish, when he accomplished so much. His lust for life was so great that only death could quell it — first the death, in World War I, of the



youngest and brightest of his well-loved children, son Quentin, and then his own, when he was just 60. What stands out most about Roosevelt is his intellectual voraciousness. Most of us know about his hunger for adventure, which took him, famously, to distant continents (Africa and South America) where he, equally famously, and, given his prescient preoccupation with conservation, paradoxically, slaughtered animals in large numbers. What we are less likely to know is that Theodore Roosevelt authored some 40 books, and cultivated an early expertise on a range of subjects, many, but by no means all, related to the natural world. A small example: Morris describes the former president seeking unaccustomed silence and solace at his home on Long Island, and witnessing 42 species of birds — thrashers and herons, bobolinks and catbirds, meadowlarks and red-tailed hawks. “All of them,” Morris writes, “were listed in the catalogue, *Notes on Some of the Birds of Oyster Bay, Long Island*. He had no need to consult that authoritative work, having written and published it himself, at age twenty.”

Tradition as a Starting Point

The fourth and final lesson is that the ruling class is anything other than dead and gone. In 1921, German sociologist Max Weber published a seminal analysis of three types of leaders, one of which was the *traditional* leader. Traditional leaders are assumed by their followers to have the right to lead because they are legitimate heirs to legitimate traditions, as, for example, when the prince inherits the throne from his father. It is impossible to read *Decision Points*, in some ways a modest book by in some ways a modest man, and not conclude that in a million years George W. Bush would never have been elected president had he not been perceived on some level as a legitimate heir to a legitimate tradition.

To be sure, before becoming chief executive, this son of President George Herbert Walker Bush, grandson of Senator Prescott Bush, and, for that matter, brother of Florida Governor Jeb Bush, had twice been elected governor of Texas. But by Bush’s own reckoning, his initial decision to run for governor, even to enter politics, was anything but obvious. Why? Because to understate it, his resume was thin, consisting of little more than brief (nepotistic) political experience, and light (nepotistic) managerial experience. Here is this particular “decision point” — to become a politician — in his own words: “My experiences on Dad’s campaigns and running the Rangers had sharpened my political,

management, and communications skills. Marriage and family had broadened my perspective. And Dad was now out of politics. My initial disappointment at his loss gave way to a sense of liberation.... I was free to run on my own.”

Much has been made of George W. Bush’s overweening need to separate from, and prove himself to, George H.W. Bush. As the line “I was free to run on my own” seems to testify, this book does nothing to dispel the impression. Quite the opposite. The reader senses that on September 11, 2001, Bush the younger was further freed, however tragically, to make his own way, however tortured, and establish his own identity, however controversial. Bush himself writes as if his presidential life, his life as a man of consequence, began on that fateful day: “After 9/11, I developed a strategy to protect the country that came to be known as the Bush Doctrine.” It consisted of what he refers to as several “prongs,” of which the fourth and final is what he would have his legacy be. He calls it his “freedom agenda,” which was to “advance liberty and hope as an alternative to the enemy’s ideology of repression and fear.” For a man who begins his memoir with the story of his quitting drinking — he writes of being prodded by his wife, Laura, who asked in a “calm, soothing voice” if he could remember the last day he didn’t have a drink — Bush came far, albeit with a mighty, mandatory assist from his fabled family.

I divide the leadership industry into two parts. One concerns learning *about* leadership, or leadership as an area of intellectual inquiry. And the other concerns learning *how* to lead, or leadership as a skill we should aspire to acquire. Life histories satisfy on both counts: They educate and elucidate, and they provide exemplars. Ron Chernow’s *Washington: A Life* is my candidate for the best book on leadership this year. But it is much more than that. It is an evergreen instruction on American history, a painterly portrait of a great man, and, to boot, a first-rate read. +

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TECHNOLOGY

The Ecology of Technology

by Michael Schrage

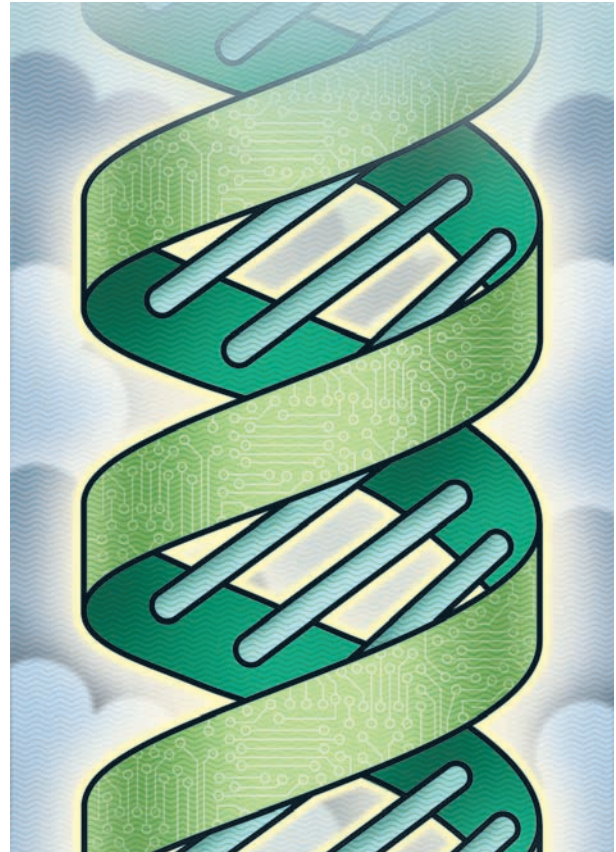
TO UNDERSTAND THE FUTURE of innovation and entrepreneurship, listen to the technology. Don't talk. Listen. Carefully.

"Listen to the technology" is Carver Mead's mantra. The eccentrically brilliant Caltech engineer is an apostle of and evangelist for Moore's Law, which states that chip circuit density reliably doubles every one to two years. Mead thinks that Moore's Law is more about belief systems than technology. "When people believe in something," he observes, "they'll put energy behind it to make it come to pass."

Belief systems that inspire great faith and even greater investment are powerful. Technologies and technical challenges that evoke such passion and commitment deserve to have their stories told. This year's best technology books are well-crafted tales of what happens when people really listen to technology and believe what they hear.

At their core, these books describe how people and technology successfully coevolve to compete. The heroes here aren't technologies, technologists, or entrepreneurs; they're the innovation ecosystems that create transformative value and growth.

That's why Kevin Kelly's *What Technology Wants*, in which Mead is featured, reads like technology's *The Origin of Species*. This sprawling compendium of argument and analysis asserts that technology is best understood not as materialized tools or actionable artifacts



but as what he calls a technium — an ever-evolving system driven by the interaction of technology and people. By contrast, *In the Plex: How Google Thinks, Works, and Shapes Our Lives* is Steven Levy's superb, surprisingly comprehensive Baedeker of what makes Google Google. Levy captures the accelerating evolution of a global innovation juggernaut and quirky collective of entrepreneurial talent. And Stephen Baker's *Final Jeopardy: Man vs. Machine and the Quest to Know Everything* updates the behind-the-scenes sensibility of Tracy Kidder's classic *The Soul of a New Machine* (Little, Brown, 1981) by observing how and why IBM committed itself to creating an artificial intelligence that could win on *Jeopardy*. The resulting computer, named

Watson, dispassionately but definitively defeated humans and Ken Jennings, who had won US\$2.52 million in 74 consecutive appearances on the show.

With eyes and ears wide open for detail, the authors of these three books are exceptional reporters. They artfully balance their insight into innovative people with their insight into innovative technologies. Their books position technology as pop culture and pop culture as technology.

Just as important, the books benefit from their living-in-the-moment narrative; they avoid the “Neugebauer dilemma” that plagues most high-tech histories. “The common belief that we gain ‘historical perspective’ with increasing distance seems to me to utterly misrepresent the actual situation,” observed the historian of mathematics and science Otto Neugebauer. “What we gain is merely confidence in generalization that we would never dare to make if we had access to the real wealth of contemporary evidence.”

These contemporaneous accounts of technical transformation possess that wealth. In these books, telling details don’t defer to facile “big think” generalizations. Executive readers desiring the big picture with meaningful technical detail will find these works useful.

Technology Lives

For Kelly, *What Technology Wants* amplifies and expands upon *Out of Control: The Rise of Neo-Biological Civilization* (Perseus, 1994), his exploration of emergent behavior and complex systems. A complexity junkie, Kelly is a cofounder and former executive editor of *Wired* magazine. He is always on the rhetorical prowl for underappreciated systems interrelationships. He listens diligently to people and technology alike.

What Technology Wants, this year’s best technology book, fully commits to Kelly’s conceit that humans and their technologies coevolve. One is practically meaningless — or inert — without the other. Like the bacterial flora and fauna digesting food in our gut, he says, technology is a life force. The book is studded with biological metaphors and analogies. The suspension of disbelief that Kelly asks of his readership is the willingness to see technologies as living things.

With no apologies to Darwin, Kelly’s take on technology is more rooted in ecology than biology. Darwin’s great epiphany was that the Galapagos Islands mattered as much as the finch’s beak. Similarly, Kelly says that it’s intellectually and economically misleading to appreciate a technology outside its (un)natural habitat.

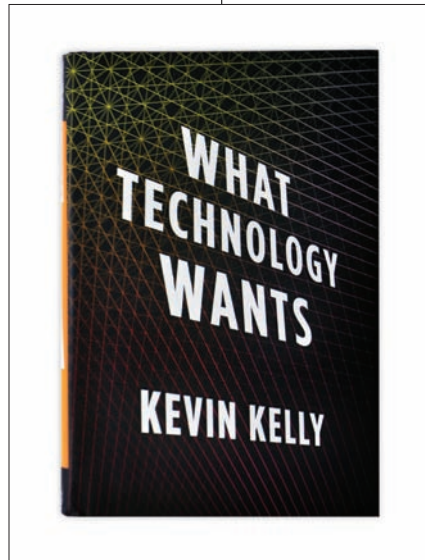
Trying to grasp technology by studying its underlying physics, chemistry, and engineering design is too reductionist, Kelly argues. Real understanding demands insight into the web of user beliefs — tacit and explicit — around the fitness and perceived evolvability of tools and processes. In other words, what can the technology become? What does it want?

Kelly’s imperative goes beyond evolutionary biologist Richard Dawkins’s vivid metaphor of the “selfish gene” to his lesser-known but comparably influential notion of the extended phenotype. Dawkins’s crucial insight is that successful birds are successful technologists. Nests, like the eggs they shelter, are essential to how birds perpetuate themselves. Poorly placed or shoddily constructed nests reduce the chances for reproductive success. Conversely, well-built nests dramatically improve the evolutionary odds. “Nest tech” — the twigs, leaves, hair strands, and so on — inarguably shapes both individual and species fitness. Divorcing bird biology from nest

technology (and vice versa) fundamentally misrepresents bird reality. Technology is an extended phenotype, something external and transcendent that transforms the bio- and ecosystems of living things.

No species on earth better extends its phenotype than human beings. Human habitats and personal relationships are mediated and managed by all manner of evolving technologies. This has been true for millennia. In *What Technology Wants*, Kelly maintains that it’s becoming ever more crucial.

We are, he insists, committed to coevolve with the living artifacts of our creation: “Technology is simply the further evolution of evolution. The technium is a continuation of a four-billion-year-old force that pursues more ability to evolve. The technium has discovered entirely new forms in the universe, such as ball bearings, radios, and lasers that organic evolution could never



invent. Likewise, the technium has discovered entirely new ways to evolve, methods that were unreachable by biology. And just as evolution did with life, technological evolution uses its fecundity to evolve more widely and faster. The ‘selfish’ technium generates millions of species of gadgets, techniques, products, and contraptions in order to give it sufficient material and room to keep evolving its power to evolve.”

That relentless and remorseless coevolution spawns a theme and thesis inhabiting the entire book: “the evolvability of evolvability.” In other words, how does evolution itself evolve?

“As evolution rises, ‘choicefulness’ increases,” Kelly writes. “A mind, of course, is a choice factory....” Different technologies appeal to different minds. Choices change as technologies evolve. Technologies evolve — and mutate — as those choices shift. But human minds won’t be the only “choice factories” in this emerging ecosystem.

Kelly’s technology wants choicefulness. Technologies are becoming smarter; they’re evolving with silicon and software-enabled situational awareness. They’ll be inventing, and evolving, new ways to choose, not just in cooperation with people, but also in competition with them. Does anyone doubt that tomorrow’s smartphone will recommend what pictures to take or phone calls to make? Whose choicefulness will exert greater influence over a typical day: the growing menagerie of your evolving devices or your mind, which (supposedly) tells them what to do?

The upshot is that almost everything people think they understand about intelligence, innovation, and choice needs to evolve as technology evolves. *What Technology Wants* is explicit acknowledgment that, now and tomorrow, trying to understand these three things distinct from our coevolving technologies is not merely self-deceptive but a denial of human potential.

Google’s Hive Mind

Arguably no company on earth better embodies Kelly’s thesis than Google. With its global reach, driverless automobiles, plethora of digital platforms, dizzying arrays of real-time algorithms, and density of computational expertise and server farms — not to mention its great and growing wealth — Google is a coevolving innova-

tion ecosystem par excellence.

Google cofounders Larry Page and Sergey Brin do more than just listen to the technology; they’ve turned their company into a most fluent translator of its every hiccup, whisper, and utterance. Even bats must envy their flair for echolocation. They’ll hire the world’s best specialists, deploy microphones anywhere and everywhere, and do whatever it takes to ensure maximum technological intelligibility. But the genius of Page and Brin lies not in their own acuity, but with their ability to evoke it in others. They hunger for techno talent that listens even better than they do.

In the Plex flawlessly describes Google’s unique culture, which is dedicated to getting the world’s greatest technologists to innovate beyond disciplinary bound-

Google’s founders thoroughly grasped that they had launched not a company but a global innovation ecosystem.

aries. Although Steven Levy does not quite offer — or create — fully rounded views of the many Googlers mentioned in his pages, his descriptions of their design sensibilities and innovation ethos are without peer. This is the best book about Google yet written, because Levy gets the “push the envelope until it rips” intellectual extremism that defines Google’s most effective intrapreneurs. Sure, they’re very smart. But their drive and ambition have to get Page and Brin hot and bothered, or they will not have much impact.

“Page once said that anyone hired at Google should be capable of engaging him in a fascinating discussion should he be stuck at an airport with the employee on a business trip,” Levy writes. “The implication was that every Googler should converse at the level of Jared Diamond or the ghost of Alan Turing. The idea was to create a charged intellectual atmosphere that makes people want to come to work. It was something that Joe Kraus [a top-tier Google hire] realized six months after he arrived, when he took a mental survey and couldn’t name a single dumb person he’d met at Google. ‘There were no bozos,’ he says. ‘In a company this size? That was awesome.’”

Serious readers will come away from *In the Plex*

knowing in their heart of hearts that their own organizations aren't as passionately committed to technology, technologists, and their creative coevolution as Google. Recruiting the very best quants and software jocks was simply the most obvious element in the coevolutionary equation. What really made the difference was the founders' relentless emphasis on creating the fastest possible and best user experience. Milliseconds mattered. The fastest search had to be the best; the best search had to be the fastest. That is an innovation imperative requiring exquisite skills in listening to technology.

But Google's founders — intuitively, analytically, or alchemically — thoroughly grasped that they had launched not a company but a global innovation ecosystem that technologically transformed value creation. The company's culture evolved around the interaction of brilliant people with brilliant technology. It wasn't just that smart Googlers made innovative technology; innovative technology made Googlers smarter. Google was as much a hive mind as an innovation ecosystem.

In the words of publisher and digital entrepreneur Tim O'Reilly, Google was the first real Web 2.0 enterprise: "The real heart of Web 2.0 is harnessing collective intelligence." This was Google's transcendental essence. Google understood and exploited the innovation ecosystem of network effects faster, better, and cheaper than anyone else. Virtually every successful investment the company made was based on the belief that the economics of network effects ensured that great innovation would be great business.

This proved true. From Page's PageRank (pun intended) algorithm that made links the center of search to Google's expropriation of rival GoTo's auction business model for keyword search, Levy observes, everything was engineered around exponential expectations.

To succeed, Google would ultimately have to manage billions of queries and petabytes of data. To sustain success and growth, Google would inherently need to think not just big but *huge*. The firm would need to listen for and exploit network effects wherever it could find or create them. As Levy documents with relish, from Android mobile phones to Gmail to YouTube

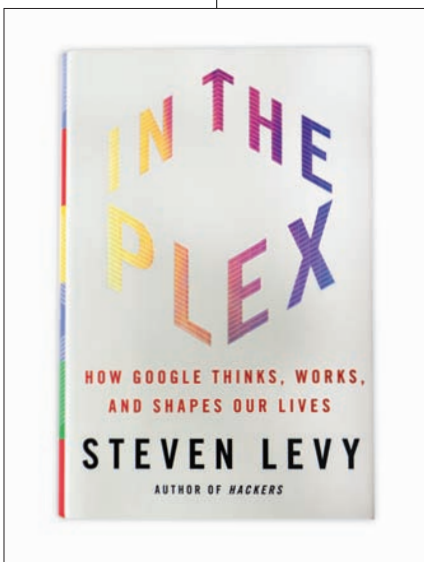
videos, Google literally and figuratively enjoyed an embarrassment of digitized riches.

What a fantastic innovation environment. Network effects meant that the innovation paradigm could shift away from linear research and development to more iterative experimentation and scale. Business experimentation soon converged and coevolved with technical and computational experimentation. Google's ecosystem became an economy. So the company hired innovative Berkeley professor Hal Varian as its chief economist; Varian has proved adept at designing market mechanisms for monetization and using Google searches as forecasting tools for the global economy. (See "To Hal Varian, the Price Is Always Right," by Michael Schrage, *s+b*, First Quarter, 2000.)

Levy holistically captures Google as a global business; a data-driven, experimentation-oriented innovation culture; a cutting-edge technologist; a pop culture icon; and the living extension of its founders' vision. He strikes these balances remarkably well, although he is, perhaps, a little too generous to a company that clearly offered terrific access.

That said, Levy doesn't flinch in describing Google's difficult moments, such as the souring of relations with Apple's late CEO Steve Jobs, who felt betrayed by the top management at Google when that company introduced the Android phone. Indeed, Levy's earlier books on Apple — *The Perfect Thing: How the iPod Shuffles Commerce, Culture, and Coolness* (Simon & Schuster, 2006) and *Insanely Great: The Life and Times of Macintosh, the Computer That Changed Everything* (Viking, 1994) — give him great insight into and context for writing about idiosyncratic technical geniuses worth billions of dollars.

Levy also points to the struggle of retaining exceptionally talented people who invariably chafe at the technical and business conflicts that emerge in every fast-growing global enterprise. As dominant and influential as Google may be now (wasn't that true of Microsoft barely a decade ago?), Schumpeterian reality suggests that today's Googlers may be the firm's most serious rivals tomorrow. To its credit, Google recognizes this. It knows that some of its best people may listen to



the technology in a different way — and choose to do their translating elsewhere.

What Is “Watson”?

That “listen different” sensibility reverberates throughout *Final Jeopardy*. This book is more an hors d’oeuvre than a gourmet banquet. But it serves a tasty slice of the larger themes addressed by *What Technology Wants* and *In the Plex*. Sometimes the technology simply says, “What the heck.” Sometimes the seemingly trivial provokes serendipitous and significant leaps of innovation.

The sheer quixotic nature of the quest is silly but irresistible. Could IBM build a machine that could do for *Jeopardy* what Deep Blue did for chess? Could Ken Jennings — the ubergeek who captured the hearts, minds, and Nielsen ratings of America’s longest-lived TV game show as its most dominant champion — be turned into a 21st-century Gary Kasparov, the world’s top chess player who was defeated by IBM’s Deep Blue in 1997? Could creating a *Jeopardy* machine generate publicity for IBM even as it pushed the boundaries of real-time artificial intelligence research? As a successful *Jeopardy* contestant would answer, “What is *yes*, Alex?”

Although his prose is more serviceable than sparkling, Stephen Baker chronicles what happens when IBM’s serious researchers confront a high-risk/high-stakes challenge at the intersection of humiliation and breakthrough. Given the immature mix of artificial intelligence techniques and technologies, the *Jeopardy* challenge was far more difficult than that presented by chess.

After all, chess — the royal game — had been the lab rat of artificial intelligence research for decades. *Jeopardy* — the game show of the upper middlebrow — sometimes involved more competitive, interpretive, and open-ended interplay than chess. The task of recognizing, evaluating, and processing puns, pop culture references, and subtle wordplay in less than two seconds is a nightmarish programming proposition.

But David Ferrucci, the stressed-out researcher tasked with bringing Watson to life and Baker’s chosen hero, is fully committed. Money plays only a minimal role in this narrative. IBM supported the *Jeopardy* challenge both as a publicity stunt and as a forcing mechanism to integrate nonaligned strands of its artificial intelligence and analytics research efforts.

I’m comfortable arguing, as Baker is not, that a decade hence, Watson’s triumph in *Jeopardy* will be regarded as a far more technically and economically significant event in computing history than Deep Blue’s victory.

Why? Because the way people interact with machines around seemingly simple questions and answers represents a profound shift in the coevolution of technology. It’s not an accident that one of IBM’s most important prototyping tools in Watson development was Google.

Just observing how IBM modeled, simulated, and evaluated what it takes to win at *Jeopardy* is an anecdotal treat. Knowledge is not the same as understanding. “This led to an early conclusion about a *Jeopardy* machine,” Baker writes. “It didn’t need to know books, plays, symphonies, or TV sitcoms in great depth. It only needed to know *about* them.... Ken Jennings, Ferrucci’s team learned, didn’t prepare for *Jeopardy* by plowing through books. In *Brainiac* [Jennings’s pop autobiography], he described endless practice with flash cards. The conclusion was clear: The IBM team didn’t need a genius. They had to build the world’s most impressive dilettante.”

Designing for dilettantism across the breadth and range of *Jeopardy* categories was enormously difficult. But Google- and Wikipedia-type technologies — combined with computationally intensive statistical learning algorithms — ultimately gave Watson the power to win.

When Ken Jennings lost to Watson, he noted on his (correct) final *Jeopardy* answer the mock ironic line from a famous *Simpsons* cartoon: “I for one welcome our new computer overlords.” This was a passing of the pop trivia torch from the most successful human player to his silicon successor. When Jennings completed his run of *Jeopardy* wins in 2004, no one in computer science — including the Googlers — would have predicted a Watson-like triumph within a decade.

Francis Bacon, the founding philosopher of science to whom the famous phrase “Knowledge is power” is attributed, also observed in 1620 that “we cannot command nature except by obeying her.” In this later observation, he anticipated Carver Mead’s aphorism by roughly 375 years. The essential truth of that prescient insight hasn’t changed a bit. But the technologies have evolved, in every meaning of the word. Their ongoing evolution, these three books agree, is also our own. +

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