Leadership as an Institutional Trait

In the popular press, companies are often portrayed as shadows of the “Great Men” who sit in the chief executive’s chair. In reality, there is little that an executive, no matter how charismatic, can do alone to affect business results. Leadership is, by definition, doing things through the efforts of others. A new global study conducted jointly by the World Economic Forum and Booz-Allen & Hamilton analyzes leadership as an institutional capacity, not solely a personality trait of individuals.

Businesses that become dependent on a single great leader run a risk: If that individual retires, leaves, or dies in office, the organization may lose the capacity to succeed. Witness the fates of ITT Industries Inc. after Harold Geneen, the Polaroid Corporation after Edwin H. Land, or Apple Computer Inc. between Steven P. Jobs’s terms.

Instead, the CEOs of enduring companies use effective communications and enabling management systems (such as vision, planning, organization structure, group measurement, compensation) to create organizational alignment around business objectives, while encouraging adaptability in the face of discontinuous threats or opportunities. Alignment and adaptability create the environmental conditions for employees to “do the right thing,” encouraging the behaviors that drive superior company performance.

The worldwide study suggests that successful companies share several characteristics. Their leaders manage a few enabling systems “tightly,” and leave others “loose.” These systems are consistently effective at all levels in such companies; at most companies, systems may work at the top levels, but become less effective as one moves down the hierarchy.

Although alignment and adaptability are difficult to achieve simultaneously, they are not mutually exclusive. The key is to achieve the right balance. One way is to align around adaptability by measuring and rewarding agility, responsiveness, and risk-taking. Companies that scored above the mean in both alignment and adaptability outperformed peers on key financial indicators.

In general, executives spend more time and energy on achieving alignment over adaptability. Not all alignment is good, however. Bureaucratic alignment — anchored in the habits and success of the past — can be deadly. And adaptability without sufficient alignment and control of risks leads to chaos.

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Dollarization: Opportunity or Quagmire?

More than the Big Mac, Coca-Cola, or Levi’s 501 jeans, the dollar is surely the United States’ signature export. Having long had a market among money launderers, drug smugglers, and tax evaders, the greenback has now gone up-market. Rather than seeking to produce a stable currency themselves, a growing number of Latin American governments are considering importing it — that is, giving the U.S. dollar legal tender status, a technique known as dollarization. In 1998, there was talk of Argentina adopting the dollar. Now Ecuador seems ready to jump on the bandwagon.
How should U.S. companies considering whether to establish a distribution network or open a branch operation in Latin America regard the news that a country is contemplating dollarization? It would seem, at first blush, that dollarization must be good. Replacing the local currency with the dollar simplifies planning. It eliminates currency risk. It removes the possibility that accounts receivable will be inflated away. Doesn’t this necessarily make the country a more attractive place to do business?

The answer, alas, is no, because countries are tempted to adopt the dollar under two very different sets of conditions.

One is that of “Country A,” for which dollarization is the culmination of a long process of policy reform. The government first halts inflation. It strengthens the banking system, cuts the budget deficit, and pushes through labor market reform. Only then does it adopt the dollar. The economy, having been properly primed, finds living with the dollar easy. And by making it all but impossible for the government to revert to its bad old inflationary ways, dollarization locks in other policy reforms. One can hardly imagine a better place to invest.

Then there is “Country B,” where reform has not yet begun. This country suffers from an unsustainable budget deficit, high inflation, severe banking problems, and political unrest. Dollarization is seen as a way of jump-starting reform and restoring investor confidence. With the adoption of the dollar, inflation will come down at a stroke. Exchange rate instability will disappear. With no central bank to finance the budget deficit, politicians will have to find the resources to balance the budget and recapitalize the banks. Previously factious interest groups will have to hammer out an agreement on how to pay the bills.

Dollarization raises the stakes in Country B, because it intensifies the pressure to reach a political consensus by foreclosing other options. This, of course, also raises the possibility of another, less happy outcome. If consensus is not achieved, then the government, having lost the ability to print money, will have no way of averting the collapse of the banking system.

Unable to finance itself with the printing press, it will have to gut public programs. Its fiscal cuts will be seen as arbitrary and inequitable, leading the indigenous peoples to descend from the highlands and call for the president’s ouster. Political and financial chaos, not stability, will result. For this country, dollarization is a high-stakes gamble with no guarantee of success. It makes foreign investment there risky business.

“Country A,” of course, is Argentina, while “Country B” is Ecuador. Clearly, American executives, when making strategic decisions, need to know more than simply that a country is prepared to dollarize. They need to understand the circumstances that have brought it to this point.

Barry Eichengreen

Tactical Blunders in Internet Advertising

Online brands with high hopes for building real revenues spent nearly $2 billion on media advertising in 1999, with over half spent during the holiday season. Since the quality of communication is considered by some experts to be four times more important than the level of expenditures, a $20 million ad budget can deliver revenues ranging from $5 million to $80 million. So which end of
the range will online brands be able to realize? Unfortunately for the majority of Internet brands, most of this money either has been wasted entirely, or is failing to achieve minimum objectives.

The all-too-common scenario goes something like this. A team receives funding of, say, $30 million to start an Internet business. Of this investment, $20 million is allocated to brand-building through an agency hired to create media ads. With an unclear understanding of what the brand stands for, and a business model in flux, the company ends up with ads that either focus on brand attributes without an emotional connection, or seek attention by shocking the audience. In the first case, the ads usually fail to break out of the clutter. In the second case, they don’t have the desired effect on the customer relationship, or they create memorable snippets unconnected to the brands.

One fundamental problem is that most Internet companies don’t take the time and effort to develop a brand identity or vision that specifies the brand’s aspirational associations. This mistake stems from the fact that these businesses are preoccupied — and so their brands are, too — with the technical reasons that their business model or technology is worthy. But most strong brands have a combination of meaningful intangibles, brand personalities, emotional connections, vivid symbols, differentiated branded features, and self-expressive benefits. The Internet firm misses much of this by fixating on high-tech product attributes.

A second problem is the assumption that old media advertising is the only viable route to brand-building, because it is fast and can be delegated. In fact, it is increasingly hard to create advertising that stands out in the media world. Further, old media advertising is almost never engaging and personal. (It’s ironic that so many companies built around the most interactive medium pick the least interactive for their communications.) Successful Web-based brand-builders are out there — witness such programs as Yahoo’s event sponsorship, Ask Jeeves’s participation in the Macy’s Thanksgiving Day parade, or Big Words’ yellow jumpsuit presence on college campuses. But these are exceptions.

So why do really smart people make such tactical blunders? Two reasons. First, they believe that being first to market and first to market dominance is critical to success. Thus, they believe there just isn’t time to get their advertising right. Second, either they lack marketing talent or the talent arrives too late. Regrettably, the old adage “haste makes waste” applies.

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