Social critic John Ruskin once wrote, “Life being very short, and the quiet hours of it few, we ought to waste none of them in reading valueless books.” Agreed, but that’s easier said than done when the production output of business books exceeded 7,600 titles last year.

Our annual review can help. It whittles the towering stacks down to three dozen books, covered in 10 essays written by a stellar group of commentators, including distinguished newcomers to this magazine like Margaret Wheatley and seasoned veterans like James O’Toole.

In choosing the year’s best business books, we made long lists of likely candidates, but each writer selected which works to read and review for himself or herself. That makes the connections and contradictions between these essays all the more unexpected and interesting.

For example, Nell Minow, cofounder of the Corporate Library, points out that biographies and memoirs are always subject to inherent bias in the selection and presentation of facts. We see this bias in the contrast between Ted Sorensen’s memoir, Counselor, one of Minow’s selections, and the portrait of Sorensen that Robert Schlesinger paints in White House Ghosts, one of Michael Schrage’s picks as a best book on rhetoric.

Another example: Wheatley and Carole Schwinn’s passionate and provocative essay on capitalism and community reviews books that explore the collision of the Western economic perspective and globalization. The theme reemerges in Kishore Mahbubani’s The New Asian Hemisphere, a selection of former Economist editor Marc Levinson in his essay on globalization, and then surfaces again in Pankaj Ghemawat’s Redefining Global Strategy, a selection in the strategy essay by IMD Professor Phil Rosenzweig.

The business ramifications of digital technology echo through Catharine P. Taylor’s insider’s review of marketing books and the essay on innovation by New York Times Magazine contributing writer Jon Gertner. And it returns again in Clayton M. Christensen’s Disrupting Class, a selection in the essay on books about human capital by strategy+business Contributing Editor Sally Helgesen.

Ultimately, choosing best books in any genre is a wonderfully subjective pursuit in which the only opinion that really counts is that of the individual reader. You may agree or disagree with our choices for this year’s best business books, but be assured they are all worthy of your quiet hours.

— Theodore Kinni
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As in the past, many of the books about strategy published in the last year employ a familiar set of buzzwords. They advise us to “think big,” to “outsmart,” and to “break through”; they urge us to “break the rules,” “change the game,” and strive for speed, agility, and focus.

Managers may find a useful idea or two in each of these books, but few of them are fundamentally persuasive or insightful. Most are long on admonition and exhortation — Be innovative! Be bold! — but short on critical thought. Many suffer from a fatal flaw: They feature companies that have achieved remarkable performance — whether great success or colossal failure — and then explain those outcomes using simplistic ex post facto rationalizations. In doing so, they fail to appreciate the real uncertainties facing managers as they make decisions. And they ignore the fact that it is just as easy to select a handful of successful companies and conclude that they prevailed through dogged persistence and focus as it is to pick a set of companies whose success seems to be based on their willingness to scrap the conventional and do something radically different. After the fact, it’s always possible to tell one story or the other.

As for words like agility and resilience, they describe wonderfully aspirational qualities that also tend to be observable only in hindsight. Show me any successful company, and I can make a case that it is agile and resilient; show me any less-successful company, and I can argue that it lacks those qualities. But unless we can
define these concepts as we observe them, rather than infer them from past performance, they provide little more than retrospective storytelling. Which is not a bad way to describe many strategy books.

Corporate strategists deserve better, and the good news is that 2008 saw the publication of a number of strategy books that are in fact better. For the past two years, the focus of strategy+business’s essay on best strategy books was growth. But strategy is fundamentally about choices made in a competitive setting, and this year, a few books bring competition back to center stage.

**Red Queen Competition**

The most ambitious and important new strategy book is *The Red Queen among Organizations: How Competitiveness Evolves*, by William P. Barnett, a professor at Stanford University’s Graduate School of Business. The book’s central image comes from Lewis Carroll’s classic children’s story *Through the Looking-Glass*, in which the Red Queen explains to Alice that in her country, “it takes all the running you can do, to keep in the same place.”

The driving mechanism of Red Queen competition is straightforward. “Organizations learn in response to competition, making them stronger competitors and so triggering learning in their rivals,” writes Barnett. Thus, performance is relative to competition, not absolute. A company can run faster and fall farther behind at the same time.

Despite our fondest wish to achieve high performance by following a simple formula — and despite the dozens of strategy books that cater to that desire — the realities of Red Queen competition are starkly different.

Barnett identifies two of these realities: “The threatening effects of current-time competition, and the viability-enhancing effects of hysteretic competition.” (*Hysteretic* refers to systems that, like thermostats, are slow to switch back to their previous state after a stimulus has been removed.) The danger of competition is obvious: the greater its intensity, the greater the threat to survival. But the benign effect of competition is also important, although often overlooked: “Organizations with more exposure to a recent history of competition are more viable and generate stronger competition.”

The central insight of Red Queen competition is that through competition itself, firms learn about rivals, about customers, and about the competitive context — and therefore become stronger. Yet as companies become stronger, rivals learn from one another and emulate the leader’s winning ways, leading to a narrowing gap between the best and the rest. That’s the nature of Red Queen competition — companies have to run faster to avoid falling behind.

How then should a company pursue a strategy? In a riposte to so many formulaic books, Barnett writes: “There is no one best strategy. Rather, organizations must perform better than their rivals according to the context’s logic of competition.” What works best is context-specific; change the context and the company’s performance will vary. Some competitive contexts may be coarse-grained — the results of competition are relatively few and far between but of huge consequence, such as winning or losing a contract for a new airplane or a bid for a major construction project. Others may be fine-grained, with payoffs that are frequent but less consequential, such as merchandising a consumer product in a narrow geographic region. But whatever the competitive context, explains Barnett, “winning and losing in competition depends on whether organizations are well adapted to the specific competitive logic that prevails in their contexts.”

Barnett does not underestimate the uncertainty that managers face in understanding their competitive contexts or the difficulties inherent in having to make inferences quickly on limited samples. “If, with the benefit of large samples seen in hindsight, those who study organizations face indeterminacy, then even greater uncertainty is faced by those who manage organizations,” he writes. “After the fact, we can look back over the evidence of an industry’s history and recount with greater clarity the various logics of competition as they have unfolded. Before the fact, however, these logics are yet to be discovered.”

Barnett’s view of fitness through competition is borne out by sound and extensive analysis of two very different industries: commercial banking and comput-
ers. Through an empirical analysis of commercial banks in the state of Illinois over many years, based on extensive archival data, Barnett shows that banks that had been exposed to intense competition became stronger competitors. The same pattern is found in the computer business: In several industry segments — mainframes, minicomputers, and microcomputers — manufacturers discovered ways of matching technologies with customer needs through the process of competition itself. Observes Barnett: “The logic of competition that we would come to understand in each market was discovered by competing.” As for the performance implications, it turns out that computer manufacturers with greater exposure to competition were also the ones more likely to survive.

Barnett’s findings have profound managerial implications. Many recent strategy books urge managers to change the game, to search for blue oceans free of competitors, or otherwise to escape the rigors of competitive rivalry. But as this author says, “Managers busily pursuing a strategy of isolation are especially challenged by this theory. If exposure to competition is what generates capabilities, then the strategy of differentiation in order to minimize competition is called into question.” Analogies from sports often miss the mark in business, but here they seem apt. Competition brings out the best in athletes — and in companies. Records are set not in practice, but in head-to-head confrontations where rivals spur one another to do their best.

If isolating oneself from competition is not wise, surely the opposite is not recommended, either — walking into the buzz saw of intense competition, where companies have little ability to differentiate their offerings. Presumably the lesson for managers is to steer a middle path, but Barnett does not offer many guidelines for action here.

Furthermore, when the logic of competition changes, capabilities that were essential in one environment may prove to be counterproductive in another.

When the logic of competition changes, capabilities that were essential in one environment may prove to be counterproductive in another.

A Tale of Two Competitors
For an in-depth account of a specific competitive battle, a laudable book is Sony vs. Samsung: The Inside Story of the Electronics Giants’ Battle for Global Supremacy, by Sea-Jin Chang, professor at Korea University in Seoul (and my Wharton classmate and research partner in the 1990s). Chang paints a detailed portrait of Japan’s Sony Corporation and Korea’s Samsung Corporation as they engaged in a complex game of cooperation and competition.

Chang’s approach differs from most not only because he had superb access to senior executives in both companies, but because he refrains from easy inferences based on performance outcomes. He begins by citing articles from leading business magazines that acclaimed Sony’s brilliance in 1999, only to blast CEO Nobuyuki Idei as one of the worst managers just a few years later. Chang knows that people don’t become that stupid that quickly — and refuses to engage in the simplistic blame games that characterize so many books.

Through interviews and the analysis of company data, Chang tracks the strategies, organizational process-
es, and leadership styles of both companies. He demonstrates how Sony’s strategy and organizational processes were well suited to analog technologies, to which companies added value through imaginative new products. At the same time, during the 1980s and early 1990s, Samsung was little more than a component manufacturer, and unable to compete effectively against Sony. But as the rules of the game shifted in the late 1990s with the move to digital technologies, Samsung began to excel in a competitive context that rewarded low-cost components, while Sony struggled with a strategy that aimed to combine content with hardware. Further, Sony’s superiority in televisions was lost when cathode ray tube technology gave way to liquid crystal display flat screens, in which Samsung has now also overtaken Sony. Thanks to its strong position in components, Samsung passed Sony in market capitalization by 2002, and by 2006 was twice as valuable as Sony, leading its Japanese rival in both sales and profitability.

Chang concludes that the recent performance differences between Sony and Samsung were not purely the result of their different strategies, but reflected the fit between those strategies and the companies’ organizational processes and leadership. There was nothing wrong with Sony’s strategy per se, but Sony was unable to execute that strategy owing to ill-suited organizational processes and political infighting. Chang may be correct. After all, Apple has been able to succeed using a substantially similar strategy.

But another explanation is possible, as well: It may be that Sony’s inability to adapt its organizational processes is not unusual, but indeed almost predictable. Organizations often change more slowly than their environments, meaning that in time most organizations become unfitted to their new contexts. That is, of course, very much the notion of the competency trap described by Barnett in The Red Queen among Organizations, and raises the question of whether success in one context tends to lead to failure in another.

Seen through this lens, the story of Sony and Samsung, rather than being the tale of one company’s decline and another’s rise, is one more illustration of a general tendency for high performance to fall over time. Thus, some years ago Sony was praised not only for its strategic vision but for its ability to devise organizational processes to execute that strategy; some years from now, when a new generation of technology or a different competitive context is in place, Samsung may well be eclipsed by a new rival. Although we may justifiably applaud Samsung for its recent successes, we should bear in mind that the same elements that lead to success may sow the seeds of failure when the competitive context shifts.

The Global Context

The battle between Sony and Samsung highlights the increasingly global nature of competition, a subject ably addressed in Redefining Global Strategy: Crossing Borders in a World Where Differences Still Matter, by Pankaj Ghemawat, professor at IESE in Barcelona. (See “Pankaj Ghemawat: The Thought Leader Interview,” by Art Kleiner, s+b, Spring 2008.) To the current crop of authors who assert that the world is now “flat,” this title is a cogent reminder that global strategy concerns choices that are made in a more complex world.

Ghemawat argues that the world is better described as “semit-globalized,” and claims that it is precisely the differences among countries that provide opportunities for any global strategy to create value. National differences, he says, exist along four dimensions: cultural, administrative, geographic, and economic. Further, the importance of these dimensions can differ by industry. For example, geography and culture may matter little in the semiconductor industry, but for the food industry the implications of these two dimensions are massive. Once these national differences as they exist in a given industry are understood, firms can identify ways to add value through the dispersion and coordination of global activities, whether by adding revenues, decreasing costs, managing risk, or leveraging expertise.

Ghemawat describes three ways that multinationals can deliver the benefits of a global strategy: by capturing benefits of scale through aggregation; by securing benefits of local adaptation; or through a mix of both, called arbitrage. Readers familiar with the work of Christopher Bartlett and Sumantra Ghoshal, notably their landmark book, Managing across Borders: The Transnational
Redefining Global Strategy is a reminder that an effective strategy is not a blueprint that can lead to guaranteed success. Rather, strategy is making choices that will improve the chances of success — and having to constantly make new choices to differentiate oneself from rivals in a bruising competitive terrain that is well described as Red Queen competition.

If the fortunes of Sony and Samsung, and other global companies, are subject to the inexorable logic of Red Queen competition, what are the implications for corporate strategists? Is any success, however brilliant it may seem today, fated to regress to some industry mean? Inevitably, the discussion comes back to words like agility and resilience, and to the ability of a company to force itself toward renewal so that it might thrive in new contexts.

Not surprisingly, several current books claim to tell companies how to be agile. But none of them made this list of best books, because they all fall into the common trap of selecting a successful company and then attributing its success, in retrospect, to something that they call “agility.” To date, there is little work on agility or resilience that does not suffer from this sort of rationalization. Competition may be the topic of leading strategy books in 2008, but if these books are right — if competition can be described as a Red Queen race in which capabilities that lead to success in one time period become a trap that makes subsequent success less likely — then one would hope that next year we will feature high-quality books about agility and resilience. Although it may be impossible to defy gravity forever, devising actions that might forestall the erosion of performance should be of interest to all strategists.

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Willie Brown, Basic Brown: My Life and Our Times (Simon & Schuster, 2008)

Jacob Weisberg, The Bush Tragedy (Random House, 2008)


A Master Class IN Leadership

by Nell Minow

Stories of real lives draw their power from authenticity, engagement, and example. Whether these stories are told by the subject, an insider, or an independent researcher who was not even born when the events occurred, it is their reality that touches, teaches, and inspires us. This year, the legitimacy of the genre repeatedly came into question, but there were outstanding examples that reminded us of the singular importance of actual life stories, honestly examined.

Autobiographies filled the headlines in 2008, and not in a good way. Several highly touted memoirs were revealed to be frauds — not just exaggerated but completely made up. More than 10 years after publication of Misha: A Mémoire of the Holocaust Years, by Misha Defonseca, an award-winning book about the author’s experiences as a Jewish child hiding out from the Nazis and for a time literally raised by wolves, it was revealed that Defonseca was a Catholic and that none of it happened. Love and Consequences, by Margaret B. Jones, a memoir of being raised by a foster mother and being a
gang member in South Central Los Angeles, was critically acclaimed, too — until it was revealed that Jones (real name Seltzer) grew up in a suburban family home and attended private school.

A credibility problem of a different kind arose from the book that sparked the most Weblog posts of the year: What Happened: Inside the Bush White House and Washington’s Culture of Deception, by former White House press secretary Scott McClellan. It is the most recent in a long, rich tradition of Washington self-exonering payback books, the kind that are read index-first inside the Beltway. It is also an un-spinning, or perhaps re-spinning, from a professional spinner that directly contradicts much of what McClellan told the press and the American public.

The memoir elicited many a smug “we told you so” from those delighted to hear a “Bushie” admit the president was uncurious and more focused on politics than reality. And there were howls of outrage from the White House, insisting that the book was just sour grapes from a man who was pushed out of his job. But what are the rest of us to believe, what McClellan said then or what he says now? A hint for parsing this genre: Look for the subject of the verb. “In these pages, I’ve tried to come to grips with some of the truths that life inside the White House bubble obscured,” writes McClellan. It does not count as “coming to grips” if the second part of the sentence omits any clue to causation or sense of responsibility. The treatment of mistakes and critics is another key indicator of validity and value in this genre. “It strikes me today as an indication of [the president’s] lack of inquisitiveness and his detrimental resistance to reflection, something his advisers needed to compensate for better than they did,” writes McClellan. Shouldn’t that be “better than we did?”

The real challenge to biographers and autobiographers is not the outright frauds but the bias inherent in any selection and presentation of facts. Biographer Kristie Miller notes, “A biographer’s greatest challenge is not to put in everything he or she knows,” and she quotes Lytton Strachey on how the craft of biography should aim for “a brevity which excludes everything that is redundant and nothing that is significant.” The appropriate proportion and context is just as essential as the names and dates.

Setting the Bar
The idea that biographies and memoirs should be true is relatively recent. In a fascinating March 2008 New Yorker article titled “Just the Facts, Ma’am: Fake Memoirs, Factual Fictions, and the History of History,” Harvard Professor Jill Lapore shows that the separation of fact and fiction, and the idea that facts should be objective and documented, is only about 150 years old. This confirms “muckraking” journalist Ida Tarbell as a pivotal figure in the genre.

Tarbell (1857–1944) helped establish our modern notion of a biography with her meticulously researched and documented books about Napoleon and Abraham
Lincoln, and especially with her 815-page biography of John D. Rockefeller and the Standard Oil Company. That book not only led to the enactment of the antitrust laws and the breakup of Standard Oil, it transformed our notion of leadership in the private sector. Explicitly premised on Ralph Waldo Emerson’s assertion that “an institution is the lengthened shadow of one man,” The History of the Standard Oil Company (1904) laid the foundation for current notions of corporate and political leadership and the impact that leaders have on their organizations and the larger economy and culture. Her book on Rockefeller was personal without being gossipy, critical without being shrill.

Investigative journalist Steve Weinberg, in Taking on the Trust: The Epic Battle of Ida Tarbell and John D. Rockefeller, explains how Tarbell raised the standard for research, documentation, and objectivity and took character-driven narrative and political/cultural critique to a new level. Her innovative approach, insisting on attribution and primary sources for her information, helped define the new concept of investigative journalism — in essence, creating Weinberg’s profession. Perhaps most important, she established an expectation of in-depth scrutiny of public figures and institutions, even corporations, that led to the development of an entire profession directed at guiding and molding public opinion: public relations. Her work also led, of course, to dozens of CEO autobiographies from would-be Lee Iacocca.

Tarbell chose Rockefeller as a subject because he was “the Napoleon among businessmen” and because her observation of the impact of his monolithic oil company on competitors and communities inspired her to write about “the processes by which a particular industry passes from the control of the many to that of the few.” There was also a more personal reason: Rockefeller’s market-dominating practices ruined the prospects of Tarbell’s father’s company. But Ida Tarbell’s credibility came from her scrupulous research and her fair-minded assessments. She was critical of the methods used by Rockefeller and Standard Oil, but she also wrote about the strengths of the company and its founder, praising the energy, intelligence, and dauntlessness of both, and she recognized business as America’s singular strength.

Weinberg shrewdly notes that both Tarbell and Rockefeller “established new paradigms for their callings in life. Their reliance on facts was born of the rationalism and scientific outlook that had arisen during the industrial revolution.”

For both, an almost messianic seriousness of purpose and rectitude bolstered their focus and vision. But Rockefeller’s goal was money and power, and Tarbell’s was justice. His goal was structure and stability; hers was adventure and social change.

An even more significant distinction between the two was their approach to criticism. Rockefeller was offended by it. Despite her firm convictions and sense of purpose, Tarbell welcomed criticism, even insisted on it. That is not only the best guarantee of the validity of her assessments, but the most important lesson from her example. It is an audacious undertaking to do justice to Tarbell, a superb biographer, but Weinberg’s book would surely earn the approval of even the steely and judgmental author herself.

Brown versus Bush

Reading Basic Brown: My Life and Our Times, by Willie Brown, the famously flamboyant and always impeccably attired four-term mayor of San Francisco and speaker of the California assembly, is like sitting down for a master class in politics with a large and small p. It is also invaluable for anyone trying to steer any large organization of disparate people who hold even more disparate interests. This is the best playbook for business leaders of all biographies or memoirs published this year and certainly the most entertaining.

Brown was consistently criticized as a wheeler-dealer but was also consistently reelected by his constituents. His response to criticism about his tactics or about standard career killers, such as having a child with a woman he was not married to, was to admit the fact, explain his position, and find common ground. In the book, as on the stump, he is candid and pragmatic: “Ethics fights can be finessed, but a silly photograph is in your face forever.” And he is undeniably effective.

Many of Brown’s ideas run counter to conventional wisdom. He believes that competence and reliability are
more important than party affiliations or platforms. He kept his legislative agenda private because it allowed him to negotiate with those who would have had to oppose him if he had made it public too soon. He took money from everyone, paraphrasing California politician Jesse Unruh: “If you can’t take the lobbyists’ money, eat their food, drink their booze, sleep with their women, and then vote against them, you don’t belong here.”

Brown’s frank and direct approach to presenting his story is as telling as the incidents and advice he includes. According to his memoir, he always did his homework on the substance and on the politics. He was always prepared but also receptive to “happy accidents.” He took nothing for granted, constantly assessing levels of support. He transcended party lines to establish strong relationships of trust and respect, and any member of the assembly who wanted to talk to him had his immediate attention. He handled sensitive matters privately to prevent embarrassment to an assembly member or a party. And he knew that if an offer sounded too good to be true, someone was probably wearing a wire.

Brown could be ruthless. He describes with great satisfaction the day that five Democratic members of the assembly told him it was time to step down as speaker. While they waited to talk to him, he had them all removed from their positions as committee chairs and evicted from their offices, with their staffs fired and their furniture put out on the street. Later, however, he reassigned them all important, though lesser, positions. “I never cut any one out entirely,” he writes. “They might be renegades today, but I regarded myself as in competition for their votes in the future.” Brown never let party affiliation, history, or grudges impede future effectiveness.

In The Bush Tragedy, by Jacob Weisberg, George W. Bush comes across as a more-partisan and less-effective politician than Brown, albeit far more powerful. Slate editor-in-chief Weisberg assembles an authoritative dossier on the 43rd president in support of his psychological assessment of Bush as a man whose goal was achieved when he was sworn in. After that, Bush’s inability to be introspective and his impatience with subtle complexities produced reactions and decisions that were superficial, even thuggish. Weisberg comes to some of the same conclusions as McClellan, but they are more credibly documented and the illustrations are more illuminating than condemning.

The book is a cautionary tale about the difference between the qualities that get someone a job and those that it takes to do the job. And it is the story of the consequences of the inability or unwillingness to learn from mistakes and criticism. Weisberg describes Bush as “mulish” and “a man of tremendous submerged anger and no patience whatsoever.” He accuses Bush of hubris and describes his presidency as “an Icarus story — the crash to earth of someone who does not comprehend his limits or his motives.”

As often happens with biographers, Weisberg becomes a bit too enamored of his explanation of Bush’s psyche, returning again and again to the template established by Shakespeare’s Prince Hal in Henry IV to portray the president as a onetime party boy who never felt respected by his father. “To state it simply,” he writes, “the Bush Tragedy is that the son’s ungovernable relationship with his father ended up governing all of us.” Although Weisberg underestimates factors that do not support that theory and overestimates those that do, his illustrations are carefully researched, thoughtfully assembled, and lucidly presented. The strength of his book is the thoroughness of his documentation, especially in the chapters about the Bush presidency, a case study in muddled strategy and incompetent implementation. The book’s most important lesson may be that leaders are not necessarily intellectual or reflective themselves, but they will always be evaluated for history by those who are.

The King’s Man
Ted Sorensen is both intellectual and reflective. The title of his memoir, Counselor: A Life at the Edge of History, reflects his focus during his years as aide to John F. Kennedy: a focus more on Kennedy than on himself. Organized thematically rather than in a strict chronology, the book delivers its liveliest and most meaningful prose in sections on speechwriting (a chapter that should be read by anyone who ever has to address an audience), the 1960 presidential campaign
Sorensen describes Kennedy’s ability to inspire hope and communicate a sense of possibility as a crucial factor in gaining the confidence and support of the voters and his staff, and the implied parallels to Barack Obama make these passages particularly relevant. Sorensen’s candor about his mistakes, and Kennedy’s, and the sincerity of his regret on both counts, are notable, especially when he apologizes for Kennedy’s failure to censure Joseph McCarthy. (For another perspective on Sorensen, see “The Art of Influence,” by Michael Schrage, page 16.)

The book’s most fascinating moments are the descriptions of Kennedy’s decision making during the Cuban missile crisis, the Bay of Pigs invasion, and other turning points, for better and worse, during his administration. Sorensen makes us see how Kennedy accepted responsibility for his mistakes and learned from them. It was the failure of the Bay of Pigs invasion that caused Kennedy to change the way he was briefed on his options and change the way he evaluated what was presented to him. His insistence on better quality and depth of information and his demand for a wider range of choices were essential elements that made the difference during the missile crisis the following year.

This memoir reads like a cross between a gripping spy novel and a Harvard Business School case study. Sorensen’s graceful insights remind us how the best and most honestly told life stories illuminate and inspire our own.

Nell Minow (nminow@thecorporatelibrary.com) is editor of the Corporate Library, an independent corporate governance research and rating firm, and movie critic for Beliefnet, a spiritual Web site, and for radio stations across the U.S.
Where there’s mystery, there are sure to be book sales. And even the most studied marketing practitioner, if being entirely honest, might admit that it’s a mystery why “Just do it” has proved such an enduring tagline for Nike, or how Starbucks, which has eschewed traditional marketing, has built such a strong brand. Thus, marketing professionals regularly unleash tomes upon the unwashed masses who inhabit corporate America, attempting to answer the unanswerable: why and how marketing works. That said, there’s something different about some of this year’s crop of marketing books, and as I went through the difficult and at times tedious process of deciding which books to review, a few rose to the top of the pile.

What was different about the best books? They focused on the fact that everything marketing practitioners thought they knew about the craft has changed irrevocably, altered by a technology-fueled upheaval in the established world order. What used to be a tidy one-way message delivery system, in which marketers used advertising agencies to create and place ads in media where the target customer was sure to see them, is now a two-way free-for-all with consumers front and center in the discussion.

Today, not only do consumers have myriad media options, including hundreds of cable channels, millions of Web sites, and commercial-free satellite radio, they also have the newfound ability to talk back to marketers via Weblogs, chat rooms, and other social media. So as marketers try harder than ever to make an impact on consumers, consumers are turning away from ads and defining brands for themselves. To a great extent, the historical lessons of marketing have become irrelevant.

Therefore, I swiftly tossed aside books on branding in the new China, books on how to market to men (and women and children, too), and even one on the cutting-edge practice of mobile advertising. The fine points of particular targets or media channels just don’t matter until marketers get a handle on the larger concept of how to reach, and listen to, increasingly empowered consumers. The easiest book to cast aside was the one that promised to revive “the lost art of creating killer slogans.” At a time when the next killer slogan might be delivered via YouTube by a passionate fan, pretending that marketers can focus on old tools to reach, let alone persuade, consumers seems hopelessly misguided.

The three best marketing books of the year all explore the forever-changed marketing landscape, but from different viewpoints. One focuses on consumers’ ability to talk publicly about, and with, marketers, and how that should impact not just brand strategy, but even corporate strategy. The second is a comprehensive take on how radically things have changed in marketing, mixing in social media as a key ingredient, but far from the only one. And the third, the only consumer-focused book of the group, explains the cacophony that results when marketers, beset by the increasingly difficult task of trying to get noticed, raise their branding initiatives to obsessive levels. Case in point: Cheetos-brand lip balm.

**Surfing the Groundswell**

Most marketers are having trouble navigating this new landscape. In a recent study conducted by Booz & Company, only 26 percent of marketers said they felt their organization was digitally savvy. The irony, and one that is dealt with beautifully in *Groundswell: Winning in a World Transformed by Social Technologies*, is that those marketers who harness digital channels to listen to and interact with consumers can strip away many of the behavioral mysteries that have constrained their effectiveness in the past. Written by Charlene Li and Josh Bernoff, two longtime analysts with the Cambridge, Mass.–based technology consultancy Forrester Research (Li left the company in July 2008), the book explores the role of all forms of social media — from blogs to wikis to corporate-sponsored forums — in capturing the
momentum generated by consumer wants, needs, opinions, and desires.

Although any book that discusses new media technology tends to contain 30,000-foot philosophizing (Li and Bernoff advise, Zen-like and in italics, that readers concentrate on the relationships, not the technologies), ultimately what makes this one a must-read and the best marketing book of the year is its practicality. Using more than two dozen case studies from organizations including Dell, Memorial Sloan-Kettering Cancer Center, Unilever, and Lego, the book gives explicit instructions on how to tap into the groundswell, defined here as “a social trend in which people use technologies to get the things they need from each other, rather than from traditional institutions like corporations.”

The foundation of the book is a tool called the Social Technographics Profile, available free online (www.forrester.com/Groundswell/profile_tool.html), which allows companies to discover whether and how their target customers use social media. This profile identifies target audiences as content Creators; Critics, who comment on already existing products and services or comments; or more passive participants in the groundswell who act as Collectors, Joiners, Spectators, and Inactives. Thus, a company with an Inactive target customer might not require a social strategy at all, whereas a company whose customers tend to be Critics might provide them the opportunity to post ratings and reviews.

The ability to tap into the groundswell may be even more important for companies in crisis, because social media is increasingly contributing to and even starting crises, according to Li and Bernoff. They illustrate this reality with the “Dell Hell” case, which is recounted in exhaustive and instructive detail.

To briefly recap, in 2005, high-profile blogger Jeff Jarvis told the tale in a series of posts of his “lemon” laptop and Dell’s failure to repair it. Jarvis’s first post, headlined “Dell lies. Dell sucks,” garnered more than 250 comments, but that was just the beginning. Soon, thousands of people posted remarks around the Web in support of Jarvis and his blog, and Dell’s poor reputation for customer service worsened as consumer complaints about its responsiveness rose to the top ranks in Google searches that included the company’s name. It was one of the first digital-age public relations disasters.

To its credit, Dell got the groundswell message. Today, it has a full-blown social media strategy, a staff of more than 40 in its communities and conversations group, a chief blogger, and a commitment from CEO Michael Dell to have an ongoing, authentic relationship with its customers. What Groundswell does particularly effectively, in this instance, is to describe Dell’s evolution in terms that make it easy for even the biggest techno-phobe in corporate America to understand how the company created and executed its strategy, and why it is so important.

The authors also demonstrate how companies can use the groundswell to learn things about their customers they otherwise never would have known. For instance, Memorial Sloan-Kettering discovered through a proprietary online community that its patients did not choose the cancer hospital because of its reputation. The patients, it turned out, were too terrified and distracted to make the decision themselves, and relied heavily on the recommendation of their primary care physicians. This insight led to greatly increased outreach to community doctors, a target the hospital had previously overlooked.

With so many digital corporate marketing priorities vying for attention these days, it would be easy for companies to put off Groundswell — both the book and the concept — for another day. My guess is that Michael Dell, and the leaders of the other featured companies, would disagree with that decision.

The Evolving Ecosystem
Whereas Groundswell focuses exclusively on social media, Always On: Advertising, Marketing, and Media in an Era of Consumer Control, by Booz & Company Partner Christopher Vollmer, who heads the firm’s media and entertainment practice, written with founding Adweek editor Geoffrey Precourt, helps marketers, agencies, and media companies understand the larger context of the consumer-in-control era, from the splintering of media channels to the development of new metrics for measuring advertising effectiveness.
It may seem disingenuous to choose a book for this essay that was written by an author I know and that was published under the strategy+business brand, so let me say that I did not expect *Always On* to make the cut. The book’s ambitious mission is rather unwieldy, and I doubted it was possible to achieve it and still be forthright about the earth-shattering effects that the digitally wrought changes in consumer media behavior have had on the marketing and media ecosystem.

But Vollmer delivers. His book both provides the wake-up call that many of us still need and accurately presents the promise that digital media — with its endless stream of consumer behavior data — can have for marketers, agencies, and media companies. It’s also extremely honest about how high the stakes are. In a chapter devoted to the predicament of ad agencies, many of which are still largely wed to making 30-second commercials, the book quotes Jerri DeVard, former Verizon Communications senior VP of marketing and brand management: “[The agencies are] evolving too slowly. They are holding onto the past and trying to rationalize it.”

At another point, Vollmer writes, “Marketers will never dominate consumers the way they once did. But they can use this deeper, more informed data-driven analysis to become partners with consumers.” Although one quote is dispiriting and the other hopeful, they both illustrate *Always On*’s objectivity and credibility, qualities that marketing books, which often read like the commercials they write about, tend to lack.

*Always On* is so packed with information and advice on how to transform marketing, media, and advertising agencies that it may take a second read to assimilate it all. Every hot-button issue is addressed here, including the controversy over how to measure a consumer’s engagement with particular ads and the increasing impact of technology companies, such as Google, Yahoo, and Microsoft, on the advertising business.

*Always On* differentiates itself by pegging the revolution in the marketing and media world not just to the technological empowerment of consumers but to the consumer insights the technology reveals. The second chapter opens like this: “There is one overriding, simple, but powerful message for all twenty-first-century market-

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The one quibble I have with the book is in its opening chapter, in which the authors document Nike’s March 2007 decision to shift a key part of its business from longtime agency Wieden+Kennedy to Crispin Porter + Bogusky, a Miami-based agency that has successfully disregarded the rules of the mainstream advertising business and assimilated digital into its offering. The move was widely seen as a seminal moment in the shift to digital marketing. By May 2008, however, after the book was published, Nike had returned its business to Wieden. The lesson: As much as the marketing world is changing, some things never change, including the fickleness of agency relationships. But this shouldn’t detract from *Always On*’s core credibility.

The revolution in the marketing and media ecosystem is very real, and this book has the courage to tell it like it is — and to tell marketers, media companies, and agencies what to do about it.

**Dysfunctional Branding**

Just in case readers of *Groundswell* and *Always On* still don’t understand that marketing is no longer about being the loudest, most pervasive brand on the block, they need to read Lucas Conley’s *Obsessive Branding Disorder: The Illusion of Business and the Business of Illusion*. Conley, who has written for the *Atlantic* and *Fast Company*, among other publications, calls into question how deeply, and often weirdly, the corporate urge to brand has gone. “Clearly our obsession with branding has gone too far,” he writes, “when priests
are peddling Disney, liquor brands are sponsoring weddings, and mothers are selling the rights to name their children.” (Yes, these marketing “initiatives” actually happened.)

Conley’s concern over the intrusiveness of branding seems particularly on target now, when technology brings consumers and brands closer, whether or not consumers want, or are aware of, that level of interaction. The book is also a timely read because many marketers are reflexively trying to brand harder in an effort to break down consumer indifference and drown out consumer-created opinions about their brands.

Conley’s problems with what he calls OBD (obsessive branding disorder) are not limited to the idea that practices such as word-of-mouth marketing can violate our humanity. He rightly objects to the use of branding as a replacement for truly innovative products and services, as well as the fact that advertisers mistakenly see branding as an end in itself, whether or not it accurately reflects their products and services — or even whether or not it is promoting a positive image. To illustrate, he points out the battered brand of New Orleans, where in the aftermath of Hurricane Katrina, Mayor Ray Nagin responded to a TV reporter’s question about the city’s high murder rate, saying, “[It is] not good for us. But it also keeps the New Orleans brand out there.”

As an antidote to OBD, Conley cites the examples of Spanish retailer Zara, Google, and In-N-Out Burger, brands that have prospered without large ad budgets. “What unifies these companies isn’t their disdain for advertising,” he writes, “but their initiative in delivering a high-quality product that people like, at good value.”

Observeive Branding Disorder goes on to detail the lengths to which some modern-day products go to brand themselves. In one hilarious anecdote, Conley recounts a marketing consultant’s idea that carmakers should individualize and brand the sound their turn signals make, because, on an annual basis, drivers spend 18 hours listening to their turn signals.

There’s some phenomenal detail here, particularly because Conley has done on-site interviews with many of his sub-

“By redefining a visit to the toilet as a branding opportunity, Charmin has placed its brand squarely between public and private life.”

jects. In a lengthy section about the “sonic branding” company Audiobrain, he describes founder Audrey Arbeen’s outsized reaction to the voice of a client’s customer service representative. He writes: “[Her] call to the company’s main office number was answered by what sounded to her like ‘a seventy-five-year-old chain-smoker.’ Recalling the experience, she clenches her fists. ‘This is a company with very sexy voices in its ads. Way off brand!’”

Conley isn’t entirely unsympathetic to brand marketers, and his efforts to humanize those who contribute to OBD — and to give credit to some highly unusual marketing ideas — help make the book more than a 200-page rant. He seems awestruck, for instance, by Charmin’s Potty Palooza, a “twenty-seven-room deluxe traveling bathroom facility” that has appeared at the Ohio State Fair and the Super Bowl. “By redefining a visit to the toilet as a commercially viable branding opportunity, Charmin has placed its brand squarely between private and public life,” he writes.


Obsessive Branding Disorder doesn’t offer advice to businesses other than that they should innovate first and brand later. Its main purpose is to raise consumer awareness and skepticism of the deep role that branding plays in their lives. To the extent the book succeeds in that endeavor, marketers must heed its message.

These three marketing books are the year’s best because they depict an advertising and marketing world that is increasingly separate from all of the taglines and 30-second commercials that have crowded our collective consciousness over the last 50 years. In fact, readers of these books should start to find it very odd that old ways of marketing are still so pervasive. That is as it should be: In today’s marketing world, Mr. Whipple has no official place at the Charmin Potty Palooza; the star of the campaign is the rest of us.
Aristotle was right: Compelling rhetoric makes for compelling leaders. Rhetoric — far more than logic — is management’s method of converting dispassionate observers into committed participants. Leaders, even coercive leaders, want their words to win hearts and change minds. They equate eloquence with influence — and influence is the currency they crave. In business, politics, and practice, the quest for “better” communications translates into calls for better rhetoric. If it doesn’t effectively persuade — if it doesn’t lead people into inspired compliance — it isn’t effective communication.

That’s why presidents, CEOs, and prime ministers invariably seek help. They turn to wordsmiths, advisors, and communications gurus to better articulate their ideas and ideals. They pick sounding boards to clarify and amplify their persona and thoughts. Entire bureaucracies spring up to support the words and imagery used by leaders to manage expectations. Rhetoric makes their world go round.

Aristotle’s insights into the art, craft, and science of rhetoric have never been more relevant. More people in more places require more persuasion than ever before. The challenge of translating Aristotelian principles into practice, however, has become disconcertingly more complex in a Google, Facebook, and YouTube era. Thus, understanding the fundamentals matters more.

Although rereading Aristotle’s treatise on rhetoric is not a bad idea, two new books persuasively present a more contemporary understanding of executive rhetoric at the highest levels. Each captures, from a radically different perspective, the individual and institutional bickering and telepromptered tweaking that ultimately puts words into leaders’ mouths. Their authors know how to tell a good story. The stories have a moral.

**Political Penmanship**

Pithy and fast-paced, *White House Ghosts: Presidents and Their Speechwriters* is Robert Schlesinger’s history of Oval Office speech writing, presented both as a portfolio of personalities and as an evolving — mutating? — presidential institution. Schlesinger, son of Pulitzer Prize–winning historian and JFK house intellectual
Arthur, has a keen ear for quotes that capture the improvisations that have shaped the communications of U.S. presidents from the 1930s through today. He can deftly trace the transformation of a phrase like “New Frontier” or “Great Society” from a throwaway scribble to an enduring cultural meme. *White House Ghosts* is my choice for the best book in this category.

Schlesinger also possesses a sharp sense of the absurdities that define interpersonal relationships at the apex of global power. Presidents of all eras want to express what they want when they want — be it the memorable phrase or a “weaving together” of two seemingly distinct speeches. Kennedy was a particularly demanding client, according to Schlesinger. “JFK said [to his feuding speechwriters] he was reminded of when his father would reject memoranda proffered by subordinates. ‘They would ask what he wanted, and he would say, “That’s up to you,” and walk out of the room,’ the president told his aides. ‘That’s what I am doing now.’”

This is a raconteur’s tale of communications innovation at the institutional level; you can’t help but smile and shake your head. Even the footnotes are as entertaining as any vignette in the central narrative. They’re analogous to speech writing’s “throwaway lines” that lift the pretty good talk into an energizing intimacy with the audience.

Any CEO, chairman, or C-suite executive paid to persuade external constituencies or internal workforces will find himself or herself jotting notes or reaching for the yellow highlighter while reading *White House Ghosts*. Viewing the presidency through the prism of the practice and culture of speech-writing offers unique insight into why rhetorical excellence is so hard to create, let alone maintain. The failures are as illuminating as the successes. Serious executives will be shocked at the seemingly slipshod ways in which the most important presidential communications are composed; they will also be intrigued by how presidents of different temperaments choose to collaborate with, compete with, and ignore their staffs and speechwriters. The words are frequently less interesting than the process that produces them.

Schlesinger’s White House history affirms how at least one vital aspect of that presidential process, from the FDR presidency to that of GWB, transcends politics and personnel: Speeches aren’t written. They’re rewritten, rewritten once more, and then revised. Only the best speeches — and the toughest speechwriters — are rhetorically elevated instead of fatally compromised by the seemingly endless iterations and political review.

To succeed in this environment, more than a few White House ghosts appear to have had egos larger than those of the presidents they served. The rhetorical imprint of JFK speechwriter Ted Sorensen on Camelot was such that the Kennedy administration’s chapter becomes “The Age of Sorensen.” The man’s self-assurance and intimate relationship with his president (and, yes, writing partner) is simultaneously poignant and off-putting. On the one hand, Sorensen’s pride of White House place and craft careers into an alienating arrogance. On the other, Schlesinger observes, the man remains touchingly protective of the slain president he so ably served. (For another take on the Sorensen years, see “A Master Class in Leadership,” by Nell Minow, page 7.)

When it comes to manipulating rhetorical machinery, the presidential differences are as interesting as the similarities. FDR was a master manipulator and collaborator who loved language and skillfully edited the output of his rhetorical brain trusts; Truman was more invested in his plainspoken Missouri self-image than in the partisan speechifying of his predecessor. Gerald Ford and Jimmy Carter were constrained both by the limits of their own communication styles and by their speech-writing processes. Richard Nixon could improvise a decent narrative from bullet points, whereas the first George Bush demanded that no submitted speech contain sentence fragments. Ronald Reagan’s years as an actor and General Electric spokesperson — as well as the sharp ideological divisions between his administration’s pragmatists and conservative “true believers” — made him an editor *par excellence*.

But they all had one thing in common: No formula for the writing process was sustainable. If the speech-writing process is too institutionalized, the rhetoric reads like laundry lists of policy points and Appropriations Committee compromises. If relationships are too per-
sonal, speechwriters become de facto policymakers rather than superior wordsmiths. The question of whether “policy should become speeches” or “speeches should become policy” has been a perennial source of tension in presidential politics. Whether speeches should be defined as events or as part of ongoing rhetorical processes has been a bloody bone of White House contention for decades.

These arguments extend deep into speech-writing mechanics and content. Should speechwriters be as knowledgeable as policymakers? Or is the rest of the institution better off when the writer’s role is to polish dull proposals into serviceable speeches? (Indeed, when the Clinton administration’s National Security Council “took away” foreign policy speech writing from the White House speechwriters, Schlesinger reports, it was heralded as a coup d’état.) Are all the president’s communications best served by an all-star rhetorical team? Or is “good enough” good enough so long as the team is overseen by a superb editor who fluently knows the president’s voice?

The amorphous nature of the speech-writing process highlights other unavoidable complexities. For instance, how many of a leader’s public words reflect his or her own ideas rather than expressive implants from collaborators who have empathized their way into the leader’s thought processes? When gifted ghosts come to know their charges more as real people than as scripted orators, what do they then become? Peers, colleagues, advisors, collaborators…or something else? Presidents are never pure puppets, but history confirms that they seldom author either their most memorable or their most important lines. Who is the speechwriter’s true client: the president or the president’s chosen constituency?

White House Ghosts answers these questions by describing how presidents, and presumably other leaders as well, end up defining themselves and their rhetorical strategies through their chosen and ill-chosen speechwriters. The people you pick to help put words in your mouth, and how you manage them, reveals more than a little bit about who you are as a leader and what you aspire to be as a communicator.

Schlesinger declines to make the explicit case for it, but he has collected all the material needed to prove that the rhetorical engineers whom a president selects have a bigger impact on public perception than the cabinet secretaries he nominates.

For example, when Lyndon Johnson gave his pow-
erful 1965 address supporting civil rights, he took care to pick a speechwriter who could marry the politics of the moment to the transcendence of enduring values: former JFK speechwriter Richard (Dick) Goodwin.

Schlesinger writes:

Goodwin knew that he was participating in an historical moment. “There was, uniquely, no need to temper conviction with the reconciling realities of politics, admit to the complexities of debate and the merits of ‘the other side,’” he recalled. “There was no other side. Only justice — upheld or denied. While at the far end of the corridor whose entrance was a floor beneath my office, there waited a man ready to match my fervor with his own. And he was the president of the United States….

“Although I had written the speech, fully believed in what I had written, the document was pure Johnson,” Goodwin would write. “My job was not limited to guessing what the president might say exactly as he would express it, but to heighten and polish — illuminate, as it were — his inward beliefs and natural idiom, to attain not a strained mimicry, but an authenticity of expression. I would not have written the same speech in the same way for Kennedy or any other politician, or for myself. It was by me, but it was for and of the Lyndon Johnson I had carefully studied and come to know.”

Is that the kind of rhetoric-generating relationship presidents should want? White House Ghosts skillfully finesses that question.

Presidential rhetoric is as much the product of organizational leadership and culture as it is of personnel, process, or policy. Schlesinger’s book should be read both as chronological collection of White House rhetorical gangs and as insightful sociology of this country’s essential bureaucracy of persuasion. If words truly matter, how they are created truly matters, too. The author would have better served his readers and his ghosts, however, had he invested a bit more effort in considering how radio, television, cable TV, and — yes — the Internet have literally changed the rhetorical channels of communication. Americans don’t yet live in an era when the State of the Union address features PowerPoint slides…but wait.
Jack Said

Of course, there’s no need to wait for PowerPoint slides to describe the state of General Electric: They’re already there. Leading America is undeniably more difficult than running GE, but as Ronald Reagan might have observed, the rhetorical emphases are remarkably similar. With no disrespect intended to the late president or other rhetorically gifted politicians such as Bill Clinton and Barack Obama, former GE Chairman and CEO Jack Welch had powers of persuasion as remarkable as they were globally successful. Compelling and dynamic rhetoric was at the core of the Welch leadership brand.

Bill Lane’s Jacked Up: The Inside Story of How Jack Welch Talked GE into Becoming the World’s Greatest Company is shockingly informative, unexpectedly funny, and a surprisingly good read about Welch’s tenure as GE’s CEO and CRO (chief rhetoric officer). Lane was a GE speechwriter for Welch for two decades. In this memoir-cum-management text, he paints his former boss as a feisty, profane, hyperkinetic mama’s boy from Pittsfield, Mass., hell-bent on molding America’s premier company to his vision and will. Lane’s Welch becomes almost a cartoon caricature of a shorter-than-average stutterer intent on being a larger-than-life CEO.

But make no mistake: When he took over from the courtly and distinguished Reg Jones, Jack Welch understood that GE could not become the world-class company he wanted unless he became a world-class communicator. Actions speak louder than words, but Welch knew what actions he wanted to take. What he needed were the right words to express and explain them inside GE and out. That’s where Lane came in.

Lane is an ex-Army officer who was neither intellectual wordsmith nor business brain. But he understood hierarchy, command, communications, clarity of expression, and leadership’s compulsion to control “the most important” message. He was clearly someone who knew how to run a briefing or a presentation for busy and impatient people. Lane became Welch’s chosen instrument not because he was as smart or insightful as his boss but because he was willing to empower the CEO to succeed on his own terms. For better and worse, Lane made it easier for Welch to express his authentic self. (That’s a luxury that Schlesinger’s ghosts rarely had amid the bureaucracy of the U.S. executive branch.)

What makes Lane’s book particularly valuable is its prescriptive descriptions of how Welch reengineered GE’s rhetoric to create internal alignment. What Lane describes goes far beyond “the CEO’s speech as rhetoric” into a realm in which Welch defined himself as both author and editor of every GE leadership theme that mattered. Lane documents how his CEO constantly revised the rhetoric of his followers — his direct reports and managers — to simultaneously scale and impose himself and his vision enterprise-wide. Aristotle would have been impressed.

GE watchers and Welch fans all fondly point to GE’s Crotonville, N.Y., training facility as the firm’s crucible for executive development. Although this is true, it misses Lane’s sharpest point. Jacked Up shows why communications and indoctrination matter as much as or more than mere executive education. Crotonville is where GE’s top talent came to get “on message” (that was Jack’s message) or to get out.

As Lane observes: “Crotonville really works for GE. The drama of a plant being stopped in its tracks based on the recommendations of a bunch of ‘students’ sent a message across the management of the company: ‘They listen to and act upon what we say, so we can’t get up there and bullshit....’”

And Welch himself is quoted as saying, “I want conclusions people can walk out the door with. Not a lot of details. What are the other companies doing? How fast are we going, in their opinion? Fast enough? Too fast? If not fast enough, how do we make it go faster? Where do we need more resources? Do we have the right people? What should specific strategies be? Do they think there is a serious enough commitment across the businesses? How important is it perceived in the organization? I want specific recommendations. Add an officer? Buy two companies? Name those companies.”

Straightforward. Direct. Clear. This was the rhetor-
ical template Welch demanded throughout his company. Performance mattered, but persuasively communicating the hows and whys of ingredients and investments that generated high performance was essential to the new GE. According to Lane, leaders who weren’t superlative presenters simply could not be leaders in Jack Welch’s GE. If you wanted a leadership future in GE, you had to have the ability to persuade Jack Welch.

Although several of Lane’s lessons are, frankly, communications clichés, how Welch’s leadership team reengineered the company around them is a compelling story. Their words were undeniably aligned with their actions.

From Aristotle on, this remains rhetoric’s greatest challenge and opportunity: How do leaders use language to persuade people to take action? How do actions illuminate and animate the words leaders choose to utter? Whether leaders write their own speeches, skillfully edit the prose that pops up on their laptops, or read whatever texts are projected on the teleprompters, the simple truth is that a “call to action” is supposed to result in action. As both this year’s best books on rhetoric persuasively illustrate, history judges whether the eloquence of the call matters more — or less — than the outcomes of the action.

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INNOVATION


John Kao, Innovation Nation: How America Is Losing Its Innovation Edge, Why It Matters, and What We Can Do to Get It Back (Free Press, 2007)

Chasing Breakthroughs

by Jon Gertner

It is somewhat mystifying, and maybe even a little discouraging, that several decades into the age of information we still talk constantly about the urgent need for innovation, yet managers struggle mightily to move good ideas from the lab bench to the marketplace. That’s not to say innovat-
ing can’t be done — the last I checked, IBM had racked up about 38,000 patents over the past 15 years, and Big Blue continues to stake out and commercialize intellectual properties with formidable speed and aggression. But how can the rest of the business world replicate such performance on a smaller, speedier scale? And how can a company like IBM itself keep up such a torrid pace? Year after year, most organizations struggle with the same daunting questions: What is the relationship between innovation and long-term growth? Should a company dedicate more resources to small innovations, or to something potentially explosive? Is the secret of successful R&D in the ideas, or is it in the execution? Is the spark to be found inside the company, or is it better sought on the outside?

This year’s four best books on innovation might help answer those questions. At first glance, they appear to have little in common. Each tackles a distinct aspect of the innovation game; they differ in substance as well as in sensibility. Moreover, they are aimed at different audiences — managers, lawyers, engineers, entrepreneurs, policymakers, marketers. This is, however, part of their combined value. We tend to think of innovation as a pursuit that requires technical ingenuity, hard work, and good management, as well as a splash of good luck. But the development of new products and processes also depends on public policies, legal environments, cultural paradigms, and the vagaries of the consumer marketplace. No single book discussed here will tell you everything you need to know about innovation circa 2008. Together, though, this year’s best books on innovation form an arresting and informative quartet. They confirm that innovation is a subject of considerable breadth and complexity that we should not take lightly or regard narrowly.

A Breakthrough Capability

In many respects, Grabbing Lightning: Building a Capability for Breakthrough Innovation keeps company with more conventional texts on innovation — the kind that speak with flowcharts and case studies to corporate managers who are trying to turn ideas into blockbuster businesses. This isn’t a criticism. Authors Gina C. O’Connor, Richard Leifer, Albert S. Paulson, and Lois S. Peters, all of whom are affiliated with Rensselaer Polytechnic Institute in upstate New York, have drawn upon several years of research involving some premier global corporations, including IBM, 3M, DuPont, and GE. Their research, which evaluates various companies’ successes and failures at systematizing their innovation capabilities, comes across as authoritative — even as it challenges the prevailing wisdom that startups have an inherent advantage over big, slow-moving firms.

“Many authors claim that established companies are unable to successfully commercialize breakthroughs,” they write, “but the fact is that companies have not dutifully tried.” This author team argues that most organizations can do better in creating institutional processes by which they can go about innovating.

Also, companies should learn to think big. Grabbing Lightning makes a critical distinction between ordinary innovation, which has been characterized by others as incremental or sustaining innovation, and breakthrough innovation, game-changing advances that alter the market and the fortunes of the company that creates them. The ability to produce breakthrough innovation is “the next major management capability large companies will claim as their priority,” the authors predict, “much like the quality effort was claimed in the 1980s.”

Many large organizations — not just IBM, GE, and Hewlett-Packard — are indeed moving in this direction, naming chief innovation officers, for example, or unveiling intriguing incubation strategies to foster worthy (and often risky) ideas. What should the leaders of these large organizations be doing? According to the authors, they should not be building skunkworks where geniuses eat junk food in splendid isolation, 24/7. Nor should they be depending on a lone, authority-bucking visionary who has an IQ of 200 but doesn’t understand the word “no,” or a dedicated internal venture group that has never seen an idea it didn’t want to grab and spin off. And most important, they shouldn’t sink a fortune into research and development. “We found no relationship between R&D expenditures as a percentage of sales and innovativeness,” the authors report, much to this
reader’s surprise. (For more on innovation spending and effectiveness, see “Beyond Borders: The Global Innovation 1000,” by Barry Jaruzelski and Kevin Dehoff, s+b, Winter 2008.)

The secrets to breakthrough innovation, the authors advise, are more mundane: Build a permanent capacity for it within your organization and assign this challenge to a new, independent division so as to distinguish it from new product development. Organize the process in a way that can consistently nurture and deliver big ideas — in the authors’ conception, a “DNA” system of Discovery, iNcubation (yes, they took liberties with the N), and Acceleration into the marketplace. Also, don’t cut funding in a tough fiscal year, no matter how tempting the idea may be. Breakthrough innovations take a long time, so it’s best not to operate under the illusion that it is going to be easy. The authors admit that “the shape of the ultimate market is usually unclear; which applications will gain market acceptance most quickly and fully is generally unknown, and the path forward is, in many cases, difficult to visualize.”

This book may be a good tool in diminishing such uncertainties. The chapters on the incubation and acceleration of breakthrough technologies, in particular, offer a range of insights on how to overcome the difficulties of the commercialization process. A quibble is that Grabbing Lightning could be more compact; some of the chapters mutate into subsections and sub-subsections that can cause readers to lose their bearings. Still, the book is noteworthy for two reasons: the care with which the authors have created a road map for boosting the innovative capacity of big business, and their daring suggestion that an era of corporate-driven breakthroughs is at hand. The train is now leaving the station, they seem to be saying. Time to get on board.

Companies will compete in the 21st century by being more reliant on collaborative idea generation and less protective of their intellectual property.

Reach Out
One of the more intriguing details within Grabbing Lightning is that all of the large companies in the authors’ study group now make use of the open innovation model — that is, they willingly look beyond their own organization for the best ideas, opportunities, and partners. A few years ago, academic and writer Henry Chesbrough coined the term open innovation in a book of the same name. Don Tapscott and Anthony D. Williams’s Wikinomics: How Mass Collaboration Changes Everything further explores the concept by considering how today’s vast communications networks can support open innovation. Another way to say this is that the Internet, and especially the newest iterations of the Web (often termed Web 2.0), have permanently altered the process and potential of innovation.

According to the authors, both executives at the strategy group New Paradigm, companies will compete in the 21st century by being more open to outside partnerships, more reliant on collaborative idea generation, less protective of their intellectual property, and wholly global in their outlook. The old model for corporations — insular, hierarchical, and paranoid — is rapidly becoming outdated. The new model harnesses the insights of customers and business partners to improve

(or, even better, to create) its products and services. “Increasingly,” the authors note, “you should assume the best people reside outside your corporate walls.”

Wikinomics is by no means wikiperfect. It is a testament to the rapidity of the Web’s evolution, as well as to the speed of its cultural penetration, that some of the authors’ observations on virtual destinations like MySpace already seem dated (indeed, the 2008 edition updates a book that was originally published less than two years ago). In addition, the book’s enthusiasm about projects like the Boeing 787 seems unwarranted in light of that jet’s serial delays, most of which are precisely a result of its collaborative production process. More problematic still are the breathless claims in the book’s early chapters (“collaboration on a mass scale is set to change every institution in society”; “we are witnessing the reweaving of the social, political, and economic fabric that binds our planet”) that threaten to undermine the authors’ arguments before they even have a chance to put them forward.

Yet when the authors do get down to specifics — in discussing IBM’s adaptation of the Linux operating sys-
tem, for instance, or the promise of a Web site like InnoCentive, which matches independent innovators with companies seeking help on specific problems — their arguments are astute and nuanced. And clearly, Wikinomics is on to something very big that any entrepreneur or manager would do well to understand. The book’s substantial achievement is not only in explaining how new businesses like Flickr, Second Life, or YouTube have succeeded by collaboration, but in exploring how collaborative processes yield results that seem to surpass the capability of individual efforts. In the case of Best Buy’s Geek Squad, for instance, employees from around the country now trade tips and share field reports in the course of playing online games like Battlefield 2, a process the division’s managers deem far more effective — and fun — than a more formal, top-down information transfer.

With the Web still in its infancy, it remains unclear how far collaborative models can push the innovation process. What if pharmaceutical research, the authors wonder, became an open pursuit? Could we then make collective headway on intractable diseases that have flummoxed the industry? The authors rightly note that wikinomics is not a panacea; simply looking outside your company for good ideas, for instance, cannot make up for shortcomings like bad internal management. And relying on outside input does not mean that corporations should immediately open their books and unburden themselves of trade secrets. But according to Wikinomics, companies will certainly need to move at least a few steps in that direction, and perhaps a whole lot more. In the words of the authors: “The choice facing firms is not whether to engage and collaborate with peer-production communities, but to determine when and how.”

Patently Ineffective
The problem with a whirring, blinking, interconnected, electronic world — where information is rapidly disseminated, shared, swapped, and improved — is that it comes into natural tension with privacy and intellectual property rights. The current patent system is ailing, say James Bessen and Michael J. Meurer, both legal academics based at Boston University and the authors of Patent Failure: How Judges, Bureaucrats, and Lawyers Put Innovators at Risk. It is time, they argue, to figure out how we can reward inventors for their work without putting fences around new research that restrict social and scientific progress.

In Patent Failure, Bessen and Meurer examine the U.S. patent system’s current procedural and operational shortcomings. Considering the book’s titular promise to reveal the dangers posed by judges, bureaucrats, and lawyers, readers might expect an angry broadside leveled at the entire legal profession. On the contrary, Patent Failure is measured and methodical, a provocative, evidence-based book for the lawyer and entrepreneur alike. The authors are nothing if not reasonable men.

The heart of their argument rests on exploring the distinctions between patents and property. The patent system, the authors maintain, isn’t broken and doesn’t need to be discarded. But it needs some serious improvements. Consider the suit brought by the so-called patent troll holding company, NTP Inc., against Research In Motion (RIM, maker of the BlackBerry), in which NTP charged that RIM had infringed upon its old software patents for wireless e-mail. Bessen and Meurer note that RIM executives were not aware of NTP’s patents until early 2000 — “ten years after RIM started developing wireless technology, four years after RIM introduced its prototype of the BlackBerry.” The suit nevertheless resulted in RIM paying out US$612.5 million.

“Increasingly, patents fail to provide clear notice of the scope of patent rights,” the authors explain. “Thus, innovators find it increasingly difficult to determine whether a technology will infringe upon anyone’s patents, giving rise to inadvertent infringement.” Unlike property such as land, with which boundaries are distinct and deeds are clear, the topography of intellectual property is in places so ill-defined and treacherous that innovators, and would-be innovators, can easily be discouraged. The authors’ analysis of recent data, for instance, suggests that the cost of patent litigation falls on innovators, thus creating a disincentive to innovate.

Bessen and Meurer conclude that the patent system still works fairly well for the chemical and pharmaceuti-
cal industries. It comes up short, though, in software, where abstractions cloud patent claims and invite confusion and litigation. The authors identify the system’s problems as a relatively new phenomenon — one that most likely began in the late 1980s, which happened to be when a profusion of software claims began to be awarded. Patents might work better in the pharmaceutical industry, they conclude, because such patents have sharper boundaries than patents on software.

Of course, what we really want to know is how to fix all this. Patent Failure puts forward a number of suggestions, all explained in greater detail than this space allows. To start with, the U.S. could use a system of specialized patent courts presided over by judges who have special familiarity with patent issues (currently patent suits can be tried in any federal district court). Other changes need not be so expensive. At the U.S. Patent and Trademark Office itself, examiners need to “reject vague and abstract claims more aggressively.” Another crucial fix could preempt the fuzzy-boundary problem: The patent office should be able to issue upon request an “infringement opinion letter.” Thus the authors envision a new system where “any party can approach the agency and request its opinion about whether a particular technology infringes upon a U.S. patent.” That sounds like a sensible idea, as does their suggestion for raising patent fees to stem the flood of applications coming into the patent office. Knowledgeable readers may find themselves thinking up other, or better, solutions. But it’s hard to disagree that we need to start considering how the law can better help, and not hinder, our inventors. Innovation is hard enough as it is.

An Innovation Agenda
Whether we will find ways for big corporations to nurture breakthrough innovations; whether we can make better use of collaborative global networks; whether we should improve on our patent system — all these questions figure into the larger issue of why innovation matters, and how we can get more of it in the years to come. Innovation Nation:How America Is Losing Its Innovation Edge, Why It Matters, and What We Can Do to Get It Back, by John Kao, explores why the U.S. should act quickly to preserve its eminence in new ideas and technologies.

The country is now in danger, the author believes, of being surpassed in its inventive capacity not only by China and India, but by Denmark and Finland and a host of other nations.

Kao, the chairman and CEO of the strategy firm Kao & Company and a former professor at Harvard Business School, has written a readable, passionate, and occasionally distressing book. Aimed at the U.S., it could also be applicable to the policymakers, research shapers, and business leaders of any other nation. The book doesn’t speak directly to the scientist at his or her bench, nor does it say, precisely, what innovation can do for a company’s bottom line. Yet it does an admirable job of explaining why innovation figures so importantly in the forward march of civilization, and is my pick for best innovation book of the year. Clearly, Kao believes that the future of the United States is riding on innovation. “In what way can we mature the American idea?” he asks. What we need, he answers, is a renewed and evolved sense of purpose — “a new national narrative,” in his felicitous description — centered on the pursuit of innovation.

Kao’s agenda may petrify small-government types. He nevertheless makes his case forcefully, urging for a reinvigorated federal role, one reminiscent of the Apollo program or Manhattan Project, in funding a national infrastructure for innovation — $20 billion to start, distributed to 20 innovation “hubs” around the country. Each hub could focus on a particular area such as cleantech or agriculture or digital media. Kao argues that such hubs, which should resemble venture capital–like incubators rather than regimented government bureaus, could be just as fruitful for the U.S. as they’ve been for, say, Singapore, whose efforts he extends as a prime example of how government can nurture an innovation engine in biotechnology.

Kao undoubtedly thinks the U.S. has little choice but to pursue such a major investment if its leaders want to compete in the global marketplace. Other countries are churning out world-class scientists who would now rather study and work in their native countries than come to the U.S. Meanwhile, some of the United States’
own best thinkers have been lured abroad to places like Singapore by the promise of ample financial resources and the freedom to pursue their research ideas. Should the U.S. government fail to pursue an agenda of innovation, Kao warns, “at some point — sooner than we might think — the curves of our decline and the rest of the world’s ascent will cross.”

Though Kao sounds some alarmist notes, his book has a largely optimistic feel. And he never seems to question whether the U.S. has the capability to take the lead in solving the world’s most difficult problems, such as poverty, cancer, or climate change. What irks him is the rapidly growing divide between what the U.S. is actually achieving in terms of innovation, and what it could achieve if it adopted the right policies, priorities, and attitude. Be forewarned that this is a grand and audacious agenda for any nation. Then again, no innovator ever got anywhere by thinking small. ♦

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GLOBALIZATION

Asia As It Is

by Marc Levinson

Let’s start with a very brief quiz. For simplicity, we’ll make it multiple choice.

Question 1: The world’s leading exporter in 2007 was: (A) China. (B) India. (C) Japan. (D) The United States.

Question 2: The top U.S. trading partner in 2007 was: (A) China. (B) India. (C) Japan. (D) Mexico.

The answer to both questions is: none of the above. The world’s leading exporter in 2007 was Germany, by quite a large margin. The top U.S. trading partner was Canada, as has been the case for many, many years. China, India, and Japan are not at the top of either list.

These facts are worth noting, because you won’t find them in the current crop of books about globalization. The massive flows of trade, investment, and labor across increasingly porous borders have become a highly sensitive issue in many corners of the world, but the remarkable revival of the German export machine and the startling transformation of the Canadian economy have not attracted literary chroniclers. When people say “globalization,” they typically are thinking of Asia. Asia’s vast populations, the suddenness of its rise, and its countries’ supposed propensity to play by different rules than...
other countries make the continent’s economic ascent a source of both wonder and worry.

No recent book captures this mix of feelings better than Kishore Mahbubani’s *The New Asian Hemisphere: The Irresistible Shift of Global Power to the East*, my pick as the standout in this category. This is not the best-written book on globalization, and certainly not the best argued. It is often redundant and frequently tendentious. But *The New Asian Hemisphere* is an important book for businesspeople to read, because it shines a light on how Asia’s new wealth is translating into new attitudes. The bottom line — West, move over — is one that every corporate executive should contemplate.

Mahbubani’s interest is geopolitics, not business. (See “Ambassador for the Asian Century,” by Sheridan Prasso, *s+b*, Spring 2008.) After a long career in Singapore’s diplomatic service, he became dean of the school of public policy at the National University of Singapore and a frequent commentator on international affairs. That school is named for Lee Kwan Yew, who became famous for leading Singapore’s transformation from an impoverished appendage of Malaysia to an enormously prosperous city-state, and infamous for promoting the notion that unique “Asian values” — a term widely translated to mean authoritarian government — were essential to Asia’s economic success. Lee is barely mentioned in Mahbubani’s book, but the book is permeated by the idea that rapidly emerging Asia has values different from, and as good as, those of the West.

*The New Asian Hemisphere* presents the case that globalization involves far more than the export of the fruits of cheap Asian labor. Asian societies, proud of their achievements and empowered by their new wealth, are regaining their historical roles as great civilizations. In the process, they are rejecting much of the influence of the West. Writes Mahbubani: “The West has to understand that this is the major historical trend of our time, that it defines our era…. A steady delegitimization of Western power and influence is under way.”

**Western Condescension**

Mahbubani reveals a lengthy catalog of grievances against “the West,” grievances that are individually insignificant but collectively telling. These include the offenses of a *Financial Times* journalist who credits China with impressive execution but unoriginal thinking; Westerners who consider China “unfree” without appreciating that its people enjoy much greater freedom than they ever did in the past; Western domination of international organizations, such as the United Nations and the World Bank; and Americans who demand that India negotiate with Pakistan while themselves refusing to resolve differences face-to-face with Iran. These examples, and many others, are offered as evidence of the limitations of Western thought. Asia, with its deeper understanding and greater flexibility than the West, no longer need tolerate such condescension. Westerners “must stop believing they can remake the world in their own image,” Mahbubani tells us. “The world can no longer be Westernized.”

As a political analyst, Mahbubani can get a bit misty eyed. His India has no communal violence or caste discrimination; rather, “a spirit of inclusiveness and tolerance pervades the Indian spirit.” In his pacific, progressive China, “the concept of peaceful rise reflects a carefully thought-out consensus,” as if the man on the street in Chengdu were actually asked his views. “Contemporary Muslim societies remain committed to modernization,” Mahbubani writes, despite ample evidence to the contrary in Bangladesh and Pakistan, while Sri Lanka, rent by a long-standing civil war that has destroyed its status as a development model for the rest of Asia, barely rates a mention.

Such superficialities aside, *The New Asian Hemisphere* offers value for the business reader by challenging the geography of the mind. Asia has fast-growing economies, yes, but let’s face it: The big attraction for most American, European, and Japanese companies is the ability to serve customers in wealthy markets with labor costs more typical of poor markets. For Mahbubani, on the other hand, globalization represents a vehicle by which Asia will move from the periphery to the center of the universe. Asians, in his view, are on their way to becoming equal, or even dominant, partners in a world in which the West — a geography
that encompasses Japan — no longer has control. Whether Mahbubani is correct matters less than whether others in Asia share his views. I suspect that many do, for he gives voice to a deep-seated resentment of the second-class status associated with belonging to a poor and dependent nation.

**Up the Value Chain**

Just as economic and political successes are allowing Asian governments to assert themselves in international affairs, so, too, are Asian entrepreneurs seeking far more than dependence on the multinational corporations of the West. Anonymously assembling other companies’ products or answering other companies’ phone calls is not much of a ticket to prosperity in the modern world, and the Asian businesspeople whose firms currently conduct such work are acutely aware of that. Foreign companies that source from the Asian mainland should not be surprised when their Asian partners lose interest in performing low-value, low-profit tasks. Those partners increasingly view themselves as competent and sophisticated, and they rightly expect to capture a greater share of the profits and the high-wage jobs that come from supplying high-value goods and services.

Two very different books on China agree that this shift is already well under way. At first glance, *Operation China: From Strategy to Execution*, by Jimmy Hexter and Jonathan Woetzel, and *The China Price: The True Cost of Chinese Competitive Advantage*, by Alexandra Harney, don’t seem to be talking about the same country. A more careful reading, however, suggests that their views about China are quite similar — and quite consistent with the picture of an increasingly self-confident Asia painted by Mahbubani.

Hexter and Woetzel are consultants for McKinsey & Company, and their book has all the charm to be expected of a consultant study. Their message is important nonetheless: China is starting to look a lot like a developed country. Chinese consumers increasingly share the preferences and expectations of consumers elsewhere, even if they cannot always afford the products they covet. The country’s businesses are quickly gaining technological sophistication and becoming more adept at meeting local consumers’ needs. Government agencies are becoming more transparent and less inclined to bend or ignore labor laws, environmental regulations, and property rights. China is not what it was a decade ago.

The implications for business are substantial. Hexter and Woetzel argue that the days of using China as a low-wage workshop and a dumping ground for cheap goods are waning. A company that wants to be successful globally must succeed in China, because of the sheer size of its market, but that success will require firms to adopt the same stringent performance standards for China that they use in the world’s most advanced markets. At the same time, however, China is not like other markets: Its economic and social conditions may require products and services quite different from those that multinationals sell in their home countries. The trick, Hexter and Woetzel say, is to figure out how to sell high-quality products that meet Chinese needs and pocketbooks while still being profitable.

Inevitably, a period of breakneck growth is followed by a period of consolidation. In the face of excess capacity, rising labor costs, and falling output prices, profitability in China is under pressure. “We expect market-driven M&A deals to take off like a rocket,” Hexter and Woetzel write. Not that this will be easy: Stock market valuations are unreliable, discounted cash-flow models dubious given the great regulatory and competitive uncertainties that underlie them, and due diligence extremely difficult to perform. Assets often have to be reshuffled to satisfy government agencies that hold stakes in acquisition targets. “You’re driving in more fog than would envelop you in deals in the developed market,” they caution. Yet there is no choice but to merge and acquire and grow, because China is moving to a modern industrial structure very quickly.
Outsourcing's Underside

Hexter and Woetzel don’t appear to have visited the same companies as Alexandra Harney. Their China is filled with reputable firms trying to meet world-class standards. Hers is populated by factories whose main business is subterfuge, skirting both laws and contractual obligations in hopes of making a profit from supplying inexpensive goods to the world’s largest manufacturers and retailers.

The China Price is a work of reporting, and the reporting is extremely good. Harney takes us into clean, ultramodern, by-the-books factories that companies operate for the benefit of buyers and inspectors from foreign customer businesses — and the less salubrious unmarked buildings nearby where the customers’ products are actually manufactured once the inspectors depart. We meet auditors who attempt to monitor compliance with the labor standards of European and American retailers, and workers who shun those well-managed factories because their compliance with rules and regulations means they offer less overtime work. Memorable participants in the quest to get rich gloriously, from the owner of an unlicensed coal mine to workers who have lost limbs in unsafe factories, appear across her pages.

Harney carefully destroys many foreign fantasies about doing business in China. Foreign companies sourcing from Chinese contractors may not even know where their goods are being made, much less whether the working conditions are actually those described in their glossy social responsibility reports. The demand that Chinese suppliers comply with labor laws and safety regulations clashes with both workers’ desire to make as much money as they can and customers’ incessant demand for even lower prices. The auditors employed by the owners of some of the world’s best-known brands are constantly criticizing factories for violating ethical norms, but the auditors don’t seem to talk with their colleagues in the procurement department, whose job is to minimize costs. “Customers believe they are reasonable, but to us the price is not reasonable,” a factory owner tells Harney. “So we have to think of other ways to make our profits reasonable.”

Harney sees herself as a muckraker. “The aim behind this book is to uncover the true cost of China’s competitive advantage,” she writes. Yet the lesson of The China Price is not at all the one she touts.

Even as she vividly reveals the human damage done by China’s double-time march to capitalism, Harney also describes a rapidly changing society in which the abuses of early industrialization are no longer tolerated. Young workers increasingly shun dirty factories with mandatory overtime; they want healthy workplaces and free time in which to enjoy their earnings. Local governments that once pulled out all the stops to attract factories no longer want polluters or labor-intensive industry; now, they want providers of good jobs with good wages, and will use their power to drive undesirable enterprises away. A more modern legal system and an increasingly vibrant civil society have not put an end to abuse and deception, but they are beginning to turn a society based on corruption and connections into one that is subject to the rule of law.

In short, where Harney thinks China is headed is quite similar to where Hexter and Woetzel think China is headed, which is pretty much in the same direction that Mahbubani thinks all of Asia is headed. All three books describe a rapidly modernizing part of the world that is on its way to dominating the world economy.

In these works, there is a certain inevitability to this trajectory. Asia is big. It’s growing fast. It is managed well, both politically and economically. As these books agree, nothing can hold it back.

Nothing Is Inevitable

William J. Bernstein’s A Splendid Exchange: How Trade Shaped the World is a useful corrective to this blind enthusiasm. Bernstein offers a lively and colorful account of world trade from 3000 BC to the end of the 19th century. Its particular virtue is that, unlike much writing on international economic history, it is not Eurocentric. People across much of Asia and parts of Africa figured out how to enjoy gains from trading with one another back when Europe was still a thinly settled wilderness. International trade was important long before Columbus and Vasco da Gama.
One of the lessons of Bernstein’s book is that trade patterns are anything but inevitable. In their day, Malabar, Aden, and Constantinople were all hubs of the world economy. Kaffa, now a Ukrainian city called Feodosiya, was one of the world’s preeminent ports, and the lonely island of Socotra, 300 miles off the coast of Yemen, was fiercely contested territory thanks to its commanding position at the entrance to the Red Sea.

All these important centers became backwaters. Wars closed some borders and opened others, complicating trade along the Silk Route through Asia. New products appeared, flourished, and floundered; Yemen, in the early 1700s, grew wealthy on the export of coffee, which had been introduced from Ethiopia, then withered as its European customers figured out how to cut costs by cultivating coffee elsewhere. Governments raised or lowered trade barriers and taxes, altering trade flows in the process; rulers in Japan and China removed their countries from the world economy for centuries. Transportation costs and technologies changed, making entirely new trade patterns economically feasible; half a century ago, no one imagined that the United States would obtain most of its apparel from Asia.

This historical perspective offers a useful counterpoint to the current giddiness about Asia. Just because China and India are enjoying trade-fueled booms does not mean they will boom forever. As Japan, South Korea, and Taiwan have demonstrated in recent decades, even well-managed economies confront obstacles, and in the face of obstacles societies tend to turn inward. Will China be so eager to project power globally as it deals with what may be massive overcapacity in manufacturing, office buildings, and high-end urban apartments?

It is unlikely that the conditions that have facilitated the explosive growth of China, India, and other Asian economies will persist. The apparently bottomless supplies of cheap labor have turned out not to be so bottomless; India, by all accounts, is already running up against severe shortages of skilled workers fluent in English. Asia’s growth was also built on cheap transportation, which has allowed it to ship even the lowest-value products to wealthier markets in North America and Europe. But the days of cheap freight may be over, as higher energy prices, environmental and security concerns, and overburdened infrastructure have combined to make it much more costly to move goods around the world. As a result, Asian manufacturers will lose an important edge in export markets.

None of this denies Asia’s hugely impressive economic achievements. But it does suggest caution in projecting them into the future.

Amid the awe at Asia’s remarkable economic success, an equally remarkable story has all but escaped notice. How is it that a country such as Germany, with its high wages, six-week vacations, strict environmental laws, and heavy pension burdens, managed to export more in 2007 than China, a country whose labor force is 20 times larger? How did a country regarded a decade ago as a victim of globalization emerge as a victor? Germany’s is a story not about raw size and scale, but about adaptability, ingenuity, and the ability of a democratic society to achieve compromise among powerful interest groups in the face of global economic change. Those are likely to be the preconditions for success in the world economy of the 21st century, and Asia has yet to prove that it can meet them.

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despite a widespread recognition that human capital constitutes their primary resource and provides their key competitive advantage, companies are ambivalent about what human capital means and reluctant to commit resources to its development. There are two principal reasons for this: The value of human capital remains resistant to quantitative measures, and the focus on short-term financial results shortchanges talent development, which is inherently long term. As a result, enterprises of every variety struggle to retain, develop, and leverage the very resource they depend upon most to meet future business challenges.

One hopes that some future Nobel laureate is presently occupied with devising a formula to put robust metrics around the value of talent so that organizations might find a way to justify its development. But short of that, this year’s four best books on human capital offer clues as to how to address the talent conundrum. Two tackle the issue directly, though from different perspectives. The other two address entirely different issues that upon closer inspection turn out to be intimately related to human capital.

**Two Takes on Talent**

In *Talent on Demand: Managing Talent in an Age of Uncertainty*, Peter Cappelli offers a strongly argued and arrestingly original take on human capital. He begins with a historical overview of talent management since World War II, noting that presently popular practices such as 360-degree assessments, action learning, peer
networks, executive coaching, and “high potential” programs have all been around under different names since the 1940s. What has fallen off the radar screen since then, according to Cappelli, the George W. Taylor Professor of Management and director of the Center for Human Resources at the Wharton School, is a core commitment to the rigorous and systematic workforce planning that is needed to support these practices and give them context.

Like strategic planning, and in tandem with it, talent planning has been a casualty of a globally competitive and highly uncertain business environment. Cappelli points out that whereas more than 95 percent of large organizations had a talent planning process in place in 1950, less than 20 percent do today. He says this deemphasis on planning has translated into a lack of internal training and development. Companies rely on formal business education as a substitute, which has led to a boom in MBAs but has undermined the work-based competencies that support the development of tacit knowledge on the job.

The problem is exacerbated by outside hiring, the default option when organizations are uncertain how to demonstrate the payoff for talent development. Talent searches are expensive, and outside hiring blocks employees’ prospects for internal promotion, aggravating retention problems as high potentials leave because they don’t see a way to move forward. As Cappelli shows, such an approach is especially unsuited to an era in which talented people define their value in the marketplace by their personal portfolio of skills, and so tend to judge potential jobs by the opportunities they provide for development.

In the absence of systematic workforce planning, companies are doomed to ricochet uncertainly between an oversupply and an undersupply of talent. Unable to respond proactively, leaders are constantly operating in crisis mode, squandering valuable resources in the process. In the language of operations and supply chain management, this amounts to a mismatch of costs. Cappelli believes such mismatches require intervention, but advises companies to spend less time obsessing over finding the ideal matching point and more time planning what to do when good-faith estimates of talent needs prove off the mark. He offers an ingenious method for reducing mismatched costs by calculating the financial risks of buying rather than developing talent. This is not quite the same as a formula for defining the value of human capital, so there’s probably no Nobel in the offing, but it provides a strong starting point.

Cappelli believes that centralized and coordinated development programs are needed if organizations are to reduce mismatched costs. But he maintains that such efforts must be flexible, data-based, and capable of reflecting a full range of cost factors. He also suggests these programs adopt a variety of tools to manage talent. These include the separation of work from job title to facilitate the distribution of stretch assignments, the creation of job boards to help employees manage their careers, and online learning that can be delivered as needed (while recognizing its drawbacks compared to face-to-face instruction, in terms of both social context and motivation).

Cappelli’s eagerness to sniff out and rebut conventional wisdom propels this book well past the boilerplate that is so common in books about talent management. The bottom line of *Talent on Demand*: Companies have almost exhausted the value of cost-cutting schemes and incremental process improvements as a competitive advantage, so they must pursue innovation. In order to develop their capacity for innovation, they have to commit to growing more talent; the endless back-and-forth poaching of people from other companies is a zero-sum game that will not be sufficient to build the human capital needed in the years ahead.

Edward E. Lawler III, director of the Center for Effective Organizations and a distinguished professor of business at the University of Southern California’s Marshall School of Business, has also taken on the human capital conundrum this year. His book *Talent: Making People Your Competitive Advantage* demonstrates a rigorous but humane patience with organizational change that provides an interesting contrast with Cappelli’s head-on assault. (See “The Talent Lie,” by Edward E. Lawler III, *s+b*, Summer 2008.)

Lawler grounds our present plight with regard to human capital in the shift to a global knowledge econ-
omy that thrives on innovation but undermines the structures required to sustain it. And he can be scathing, particularly in his description of the kind of siloed, bureaucratic, and shallow way that many organizations now approach the development and management of talent. He proposes that before they act, companies gain a more rigorous understanding of where they stand on the spectrum of HR strategies, from talent-driven to expediency-driven approaches.

At the talent-intensive end of this spectrum is what he calls the HC-centric organization (HC standing for human capital), in which business strategy is determined by talent considerations, functions are aligned to support working relationships, and performance is systematically managed and measured. At the other end is a structure-centric organizational model that seeks competitive advantage through low wages and sparse benefits, a commitment to automation and mechanization, and the extensive use of offshoring.

Lawler adjusts his recommendations depending on where an organization lands on the spectrum. He acknowledges that the structure-centric approach can be highly profitable when well designed and executed, though only for businesses that deliver simple, low-value-added products and services. Yet he cautions that the low-cost operator approach, though it may look like a rational choice, often contains such heavy hidden costs as high turnover and alienated customers. He also notes that many HC-centric organizations are “high-involvement companies” that leverage the power of their brand to appeal to people who want work that enables them to develop their skills and contribute to a company or a cause. Because these companies invest in employees, turnover tends to be expensive, so they provide incentives that emphasize work–life balance and a sense of community.

Lawler is not reluctant to question conventional wisdom, though he does so in less probing terms than Cappelli. He notes that many HC-centric organizations talk about the need to treat people fairly without ever bothering to define precisely what fairly means. He says that focusing on best practices can cause an organization to lose its competitive advantage by teaching solutions to yesterday’s problems, and views process improvement programs like Six Sigma as potentially hostile to innovation. Lawler is also dismissive of the kind of forced appraisal distributions (known as “rank and yank”) popularized by Jack Welch, asserting that such schemes often spur the departure of talented people who do not wish to work in internally competitive environments.

Consistency and clarity are qualities that Lawler values. He warns against not “walking the talk,” that is, preaching a talent focus and then rewarding managers solely on the basis of financial and operating results. He also notes that appraisal processes often fail because performance measures consist of vague terms or poorly defined personality traits. This practical take on human capital strategies and tactics makes Talent a trove of wisdom, some of it conventional and much of it not.

Learning Disruption
In his popular book The Innovator’s Dilemma, Clayton M. Christensen, the Robert and Jane Cizik Professor of Business Administration at Harvard Business School, brilliantly demonstrated how disruptive technologies derail organizations that do not understand the trajectory governing innovation cycles. In Disrupting Class: How Disruptive Innovation Will Change the Way the World Learns, he adapts his visionary theory to the challenge of public education. Although the focus of the new work is K–12 schooling, it is the best human capital book of the year because Christensen’s observations about product modularity, learning trajectories, and the ways in which markets adapt to innovation have radical implications for organizations seeking a fresh approach to human capital development.

Christensen’s understanding of product architecture shapes his insights about learning. In the early stages of a product’s development, he explains, the interfaces among its parts are distinct. If someone changes a part, all the parts connected to it must change; customization is costly and difficult because it requires a complete redesign of the system. But as technologies mature, standard interfaces emerge that make interoperability possible. Components can be modularized, and modularity permits customization.
Public education, says Christensen, is still stuck in the batch processing mode of non-interoperability, and thus must adhere to a one-size-fits-all design. The first step in improving education, then, must be moving from monolithic to modular architectures that can be adapted to suit various needs and support distinctive learning styles. Beyond this modularity, the author envisions a fundamentally different kind of education based on user-designed platforms that offer learners a means to create, rather than simply choose, both the design and content of their learning, a process that supports and frees innovative talents.

If public education is still primarily based on a monolithic instructional style, corporations have for the most part moved on to a phase of learning that customizes content and delivers it in the form of experiential opportunities integrated into everyday work. This constitutes progress, but extrapolating from Christensen’s model, it appears that this too can evolve into a new phase of self-designed learning that better supports a culture committed to innovation. In this phase, ongoing feedback loops will enable learners to calibrate and adjust what they generate and verify mastery as they go, replacing evaluations and assessments performed by outside experts.

Christensen’s insights about how disruptive technologies succeed in the marketplace also have important implications for the development of human capital. He observes that disruptive technologies never find a market among traditional customers for an existing product; selling a disruptive product requires identifying an untapped pool of non-consumers. For example, Sony sold its first tinny, inexpensive transistor radios to teenagers who were not buying the large, better-quality, and far more expensive table radios of that era. In other words, disruptive technologies gain a foothold only when offered for applications to customers who have no alternative. Later in the product cycle, if all goes well, improvements and modularity create opportunities for more widespread adaptation.

The same process applies to talent development. Customers never clamor for organizations to beef up their investment in human capital infrastructure. Like shareholders looking for short-term results, they are concerned with having their present needs met. Yet if companies fail to make these investments because they seek to placate the present market, they will miss the potential benefits of disruptive learning and the market will move on. That lesson alone makes Disrupting Class a must-read for anyone considering how to develop and profit from human capital.

On the Job
Smart technologies may have the power to erase the distinctions between the development opportunities offered to those in management and those on the front lines, and so might reshape our definition of human capital in the years ahead, but at present the employees at most companies face a far different reality. In Punching In: The Unauthorized Adventures of a Front-line Employee, Alex Frankel offers an insider’s look at this reality in a number of iconic companies.

A journalist who is not afraid to wear down his Adidas, Frankel hired himself out to UPS, Starbucks, Gap, Enterprise Rent-A-Car, and Apple. He also applied for jobs at the Container Store, Whole Foods, Home Depot, and Best Buy — filling out applications, taking extensive tests, and participating in group interviews. His experiences provide a primer for anyone interested in how talent is leveraged — or wasted — on the front lines of today’s companies.

An organization’s conception of human capital is manifest in its culture, and culture is inculcated by process and behavior guidelines that are passed along as one employee imitates another. The process is most effective when the capacity for self-expression in the ranks is consonant with expectations set at the top and an autonomous spirit flourishes. As Frankel describes it, this is something few companies know how to do.

UPS is an exception. Delivery teams at the company are charged with moving physical as opposed to symbolic matter, so when glitches occur, people performing the work must solve them by making a cascade
of decisions in real time. By giving its frontline people the latitude and responsibility to do this, UPS enables them to function as strong individuals who can nevertheless authentically represent the brand. As Frankel observes, drivers and handlers bring a human component to cutting-edge technology, meshing the two so that neither dominates. Team members experience the sense of engagement that comes from using their knowledge to address new challenges, collaborate with colleagues, and gain recognition from customers and peers. The result is a deeply rooted esprit de corps. “We were global but endemic at the same time,” writes Frankel of his experience as a driver. “We were UPS guys, a staple of the cityscape.”

The notion of “being brown” has a galvanizing effect on the UPS workforce, and UPS is known for that. But, in fact, at each of the companies at which Frankel worked, dress reinforced the sense of distinctness. The green apron worn by the Starbucks barista, the jacket and tie required by Enterprise, the black T-shirt identifying sales staff at Apple stores: All were keys to the culture, worn with pride or, sometimes, resignation. Distinctive lingo also played an essential role in defining culture, especially at Starbucks, where mastering the profusion of terms required by the intricately customized products (“tall skinny flat with room and a shot”) was essential to the job.

At Gap, Enterprise, and Starbucks, Frankel experienced highly constrained environments in which workers’ movements were codified and they were judged on what they did at every moment, leaving little scope for autonomy or growth. Trouble arose when people operating in this system were nevertheless urged to be “authentic,” as at Starbucks, where the notion that the stores provide customers with a “third place” is a corporate mantra, even though workers are usually too harried to connect with customers. In such an environment, Frankel notes, heavy-handed culture-building tries to fill the gap between the work experience and the image the company is trying to project, but under the circumstances, it feels more like propaganda.

Pushing the culture isn’t a problem for Apple because people who work at the stores are already believers. As a result, Frankel finds that the company expends little effort in “building a fake sense of belonging” through corporate rhetoric. In addition, Apple judges staff members on what they achieve rather than what they do at every minute. This contrasts especially with Gap, which describes sales staff as associates, but requires them to give priority to constantly folding the merchandise. Because of this corporate policy, designed to brand the stores by avoiding the specter of clothes on hangers, frontline workers soon come to regard customers primarily as “unfolders.”

With the exception of UPS (and Enterprise, where Frankel found the training almost cultlike), learning in these environments was haphazard and ad hoc, with churn-and-burn the expectation, if not the rule. Frontline talent was treated not as a resource to be sustained and developed, but as fodder to be processed through a revolving door. One cannot help but think of Lawler’s cautions about the hidden price that low-cost operators pay in high turnover and shoddy service.

_Punching In_ and the other best books on human capital this year broaden our understanding of how human capital is and could be developed to meet the needs of a highly competitive global environment. None of them solves the biggest human capital challenges we face, but taken together or savored separately they provoke a wide range of ideas about how talent can be unleashed and more powerfully leveraged.

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IN Search OF
ENTREPRENEURIAL
Spirit
by Margaret Wheatley and Carole Schwinn

In June 2008, Bill Gates stepped down from day-to-day leadership of Microsoft. He wrote in Time magazine of wanting “to help create a world where no one has to live on a dollar a day or die from a disease we know how to prevent.” Gates’s new cause is “creative capitalism”; he intends to use innovation, entrepreneurship, and market creation to respond to the needs of the more than 4 billion people who, he says, “have been left out.”

But ameliorating poverty and eradicating disease will take more than new products, new business plans, and new markets. First, it will require a widespread recognition of the degree to which these escalating problems are unintended consequences of the global acceptance of free-market economics.

“...
Both Yunus and Gates have deep knowledge of free-market economics. But their approaches to using capitalism to serve the poor — the Grameen Bank and the Bill & Melinda Gates Foundation, respectively — are very different, and it is this difference that illuminates a second requirement for addressing intractable global problems: challenging the basic assumptions about human nature and human capacity that have made their way from free-market economics into much contemporary business practice.

The Western economic world view frequently assumes that creativity, talent, and generosity are not common human traits; that people, especially poor people, are not smart enough to act in their own behalf; and that community is not essential for quality of life. Yet anyone working in community — that is, working with a group of people with shared interests in a specific geography — quickly discovers that nearly all people are creative. They give generously of their time and selves to help others. They want to live together in community and create better lives for their children. This is true everywhere in the world, and if we are to solve dire global problems, it is critical for this view of people to gain ascendancy, in business models and even in economic theory.

This year, the best books on capitalism and community illuminate the assumptions about human potential embedded in the current free-market model and the possibilities for building a market economy based on more holistic assumptions. Drawing from a diverse set of experiences, cultures, classes, and perspectives, these four books seek a capitalism that uses the creative dynamics of entrepreneurship to address the most difficult issues faced by two-thirds of the world’s people. Where they differ significantly is in their expectations of who possesses the entrepreneurial spirit.

**Rich Markets among the Poor**

In *The Power of Unreasonable People: How Social Entrepreneurs Create Markets That Change the World*, John Elkington and Pamela Hartigan show how capitalism is being successfully applied to Third World problems. Following in the footsteps of C.K. Prahalad, the authors point to the US$5 trillion available in purchasing power at the “bottom of the pyramid” and conclude that it is possible to do well and do good simultaneously. Their book is filled with the stories of “unreasonable people” who have applied their drive and imagination to these nontraditional markets, a trend that they argue is “a new phase in the evolution of business, markets, and capitalism itself.”

These unreasonable entrepreneurs have all the traits generally associated with traditional entrepreneurs, but, according to Elkington and Hartigan, they also have an ability to “spot dysfunction in the current system” and a willingness to “transition the system equilibrium to a different — and more functional — state.” In the process, these stars are creating new organizational forms. One such model is the hybrid nonprofit, in which for-profit businesses generate revenue to support not-for-profit activities. The Aravind Eye Care System of India, for example, operates a for-profit business that treats more than 2 million patients a year, and provides resources and training to similar firms in other countries. Its high-quality market-rate services finance no-cost or very low-cost services for patients who are unable to pay. (See “The Innovation Sandbox,” by C.K. Prahalad, *s+b*, Autumn 2006.)

The authors quote Ibrahim Abouleish, who founded Sekem. As described in the book, Sekem is an Egyptian holding company of six diverse businesses, including biodynamic farming, plant-based pharmaceuticals, financial services, information technology, and human resource services. “The Sekem initiative,” says Abouleish, “was founded to realize the vision of sustainable human development. It aims to contribute to the comprehensive development of the individual, society, and the environment.”

Elkington, founder and director of the strategy consultancy and think tank SustainAbility, and Hartigan, managing director of the Schwab Foundation for Social Entrepreneurship, offer viable answers to a question that
Bill Gates asked in *Time*: “How can we most effectively spread the benefits of capitalism... to people who have been left out?” However, two troubling assumptions underlie their work. The first concerns human nature. The capacity to apply innovation, creativity, and entrepreneurship to the bottom of the pyramid is assumed to be a special quality present in only a few people. The second concerns quality of life. Calculating the purchasing power of the world’s poorest is a useful carrot to entice entrepreneurship, but the poor are perceived solely as potential consumers, rather than as contributors to a thriving community-based economy.

**Homo Economicus Grows Up**

In *The Dismal Science: How Thinking Like an Economist Undermines Community*, Stephen A. Marglin seeks to offer a more balanced view of *Homo economicus*. The Harvard economist argues that assumptions underlying free-market economic theory — that human beings are independent actors with perfect knowledge driven solely by self-interest and insatiable desires for ever more wealth accumulation, a drive that ultimately is manifested as the well-being of the nation-state — are more cultural mythology than universal truth. And he lays the negative consequences of capitalism at the feet of this erroneous world view.

Marglin says development economists in particular subscribe to two dominant views of people and societies. The first asserts that humans are essentially the same whatever their cultural context. The citizen of a developing nation — the “other” — is thus seen as “a miniature adult, and development means the tender nurturing by the market to form the miniature Indian or African into a full-size American.” The second view places great emphasis on cultural dissimilarities and sees the “other” cultures as needing “structural transformation and cultural improvement” to take on the “adult” qualities of the industrialized nations.

Both views share an unrelenting “confidence in the superiority of Western culture” and therefore imply the inferiority of other cultures. They also lead to a standard of human development, Marglin writes, that is measured by “progress from intuitive, inarticulate, cooperative, contextual, and personal modes of behavior toward rational, principled, competitive, universal, and impersonal modes of behavior; that is, from ‘weak’ modes generally regarded as feminine and based on experience to ‘strong’ modes regarded as masculine and based on algorithm.”

The loss of these cultures matters deeply — not only to the people who live in them, but for the spiritual and ethical well-being of those in the West. The price we pay for global material progress, Marglin writes, is “the weakening to the point of breaking of ties of community.” He invites readers to “reflect for a moment on the ethical implications of destroying ways of being that are different from our own” and the impact it has on our ability to learn about community and restore “balance to our own lives.”

*The Dismal Science* should be read for its view of an alternative economics that accounts for the interests and capabilities of community. Individualism is balanced with a more holistic, multi-dimensional view of human nature; algorithmic knowledge as the sole legitimate source of wisdom is balanced with the experiential, intuitive, and sensory knowledge needed to function in an uncertain world; the nation-state as the only legitimate social grouping is balanced with allegiances to family, neighborhood, and community; and unlimited materialism and a mind-set of scarcity (no matter how rich, you never have enough) are equilibrated with more noble aspirations in a culture of abundance.

Marglin’s work is part of a courageous inquiry under way in some areas of the global development community; people there are examining the intended and unintended consequences of many years of intensive development work and huge expenditures of funds. His clear expression of the assumptions underlying many Third World interventions and development efforts helps explain the West’s record of terrible failures.

**Starting 4 Billion Engines**

Muhammad Yunus, the author of the year’s best book in this category, *Creating a World without Poverty: Social Business and the Future of Capitalism*, is the planet’s most recognized “unreasonable entrepreneur.” He and the Grameen Bank have demonstrated the power of a new
economics based on the creative potential that exists in everyone, including those traditionally discounted: the most economically poor citizens of the world.

In accepting the 2006 Nobel Peace Prize, Yunus stated that “poverty is created because we built our theoretical framework on assumptions which underestimate human capacity, by designing concepts which are too narrow (such as prevailing views of business, creditworthiness, entrepreneurship, employment) or developing institutions which remain half-done (such as financial institutions, where the poor are left out).

Poverty is caused by the failure at the conceptual level, rather than any lack of capability on the part of people.” (Emphasis added.) Yunus’s aim is to demonstrate that creativity and entrepreneurship are universal human capacities that, when properly financed and nurtured, can transform the lives of the two-thirds of the world’s population currently living in poverty.

Yunus’s use of microcredit to finance this transformation is legendary, and the evidence of its success, particularly in his native Bangladesh, is indisputable. The Grameen Bank, formalized in 1983, has provided more than 7 million poor people (97 percent of whom are women) in 78,000 villages in Bangladesh with $6 billion in microloans, which have been repaid at a rate of 98.6 percent. The bank already has served 80 percent of Bangladesh’s poor (its goal is to serve them all), and nearly 60 percent of these borrowers have now worked their way out of poverty. Grameen’s borrowers are also its owners, holding 90 percent of its shares, and with the exception of several years in which Bangladesh faced catastrophic floods that resulted in significant loss of life, homes, and livelihoods, the bank has been profitable since its inception.

Bangladesh, once called “an international basket case” by Henry Kissinger, is now described by Yunus as a “living laboratory” for human self-transformation. He thoroughly documents how over the past two decades, the poverty rate has dropped dramatically; economic growth and incomes are on the rise; population growth has slowed; and health care, life expectancy, educational opportunities, and access to shelter, sanitation, and telecommunications have all improved. Meanwhile, the Grameen model has been replicated in developing countries around the world. In 2006, the Microcredit Summit Campaign, which involved 137 countries, set a goal to lift half a billion people out of poverty, which is not unreasonable given the model’s past success rate.

It is difficult to read Yunus’s book without shaking one’s head in disbelief. The most difficult problems of the poor, those that we in the West keep trying to solve for them, are being solved by the poor themselves. Yunus likens the poor to bonsai trees, which possess all the qualities of a larger tree, but are planted in too-small pots. And he redefines development and quality of life in noteworthy ways:

To me, the essence of development is changing the quality of life of the bottom half of the population. And that quality is not to be defined just by the size of the consumption basket. It must also include the enabling environment that lets individuals explore their own creative potential. This is more important than any mere measure of income or consumption.

Yunus describes a partnership between Grameen and the French multinational Groupe Danone to exemplify the evolution of a “social business.” The purpose of the joint venture, formalized in March 2006, is to “reduce poverty by a unique proximity business model which brings daily healthy nutrition to the poor.” The venture combines Danone’s expertise at producing yogurt with the skills of local businesswomen. The result is a highly nutritional yogurt now produced in small plants in Bangladeshi communities and sold by local women to their neighbors for a decent profit. Production, retailing, and consumption are close to one another, and local people are engaged at every stage of the process.

Yunus’s concept of a social business is one that fully covers its costs through sales of goods and services that fill a market need. This is a nonloss, nondividend enterprise, owned by one or more individuals who invest in the business in the interest of social benefit, rather than personal profit. Unlike social business models that rely on donations, gifts, and grants, this model returns the initial contributions of investors and becomes self-sustaining over time. Even though investors are repaid at some point, they retain their ownership, management interest, and commitments in the venture. To Yunus, the investment opportunity is and will continue to be attractive to those who seek wise use of their money as well as measurable social benefit. “A charitable dollar can be used only once,” he writes. “A dollar invested in a self-sustaining social business is recycled endlessly.”

Grameen’s partnership with Groupe Danone has
many rich outcomes, but of special note is the impact on Danone’s culture and employees. Grameen Danone is only a $1 million business within a $16 billion corporation, yet Danone’s CEO credits it with giving the company a new vision. Employees follow the joint venture’s progress with interest, discuss it continually, and frequently mention it with pride when discussing their company in public.

Mother Teresa said that the greatest poverty she experienced was in the United States. She was describing the nation’s spiritual poverty: its excessive materialism and competition, its loneliness, its increasing sense of meaninglessness. Having worked deeply in community in the U.S. and the Third World, we agree, and we attribute this spiritual poverty to the West’s profound misperceptions about human capacity and quality of life that have been illuminated in Yunus’s work. If you must choose only one of these books to read, Creating a World without Poverty should be it. It will startle you, challenge your assumptions, and inspire you.

Re-creating Community
We believe that community engagement is the easiest and most effective way for people to see past the blinders of Western economic thought. It is also a compelling way to discover that all people of all ages are capable of creating truly innovative solutions when they care about their work. And that is why Peter Block’s wise book on how to create community, Community: The Structure of Belonging, is so important.

Several years ago, Block, a well-known consultant and author, moved to Cincinnati, which had been torn apart by racial turbulence in 2001. He became a dedicated servant leader there, spending several hours a day working to build a sense of community and create a more cohesive, healthier city.

Community, to Block, is about membership, feeling part of something larger than oneself, feeling at home, relating to the rest of the world — and participating in, owning, and being accountable for what one creates with others. It matters not whether the community is a small group, a neighborhood, a city, a multinational corporation, a global governance organization, or any other structure. Organizing any human enterprise is an exercise in developing community.

Block has applied rigor and years of experience in honing his understanding of how people can work together to create what they need and desire, “a future distinct from the past.” He focuses on the structures of belonging, giving detailed attention to the many elements of design, location, and process that contribute to having productive conversations, gatherings, and relationships. He says, for instance, that conversations should be structured around questions that evoke not answers, but commitment, accountability, and the possibility for transformation. These include questions of invitation (not mandate, coercion, or persuasion); questions about possibilities, how we wish to live in the future (not problems to be solved); questions about ownership that lead people to accept responsibility; questions about dissent that leave space for authentic doubt and reservations; questions about commitment that evoke promises and accountability for observable results; and questions about gifts that surface what we and others can bring to the quest for a different future.

This book, as Block writes, is “for anyone who wants to be part of creating an organization, neighborhood, city, or country that works for all, and who has the faith and the energy to create such a place.”

Ultimately, what makes Block’s book, and indeed this entire category of books, so compelling to us is its basis in a world view that relies on human creativity, generosity, and people’s innate desire to work together for a better future. The stories and examples, drawn from such different places and cultures, profoundly challenge the assumptions about human nature embedded in our economic theory and, therefore, in our lives. If we are to find our way out of the problems that besiege us, foremost of which is the destruction of human capability and our faith in one another, we need to be bold enough to realize that human nature is the blessing, not the problem.

Margaret Wheatley ([info@margaretwheatley.com]) works with organizations and communities globally to maintain capacity in chaotic times. She is founder of the Berkana Institute, which assists local communities in the Third World, and the author of four books, including Leadership and the New Science: Discovering Order in a Chaotic World (Berrett-Koehler, 1993) and Finding Our Way: Leadership for an Uncertain Time (Berrett-Koehler, 2005).

Carole Schwinn ([carole@berkana.org]) is cofounder of InGenius, a Michigan-based consultancy that works with organizations committed to bringing people together to improve the quality of life in their communities. Her work with InGenius and the Berkana Institute has taken her to Japan, India, Thailand, Canada, New Zealand, and South Africa.
Psychologist Jerome Bruner contends that individual learning requires the construction of a mental model of reality to make meaning of our lives. In *Actual Minds, Possible Worlds* (Harvard University Press, 1987), he suggested that there were two complementary ways of building such models. The first is the narrative method, or the telling of stories, and the second is the paradigmatic method, or the formation of logical arguments and conceptual frameworks. To learn to manage better, we need to employ both.

Without conceptual frameworks, we easily become addicted to “war stories” and overloaded with vicarious experiences. Unable to distinguish what is relevant to our individual situations, we may simply stumble from fad to fad, mindlessly copying someone else’s best practices. Without narrative, on the other hand, we cut ourselves off from the past, our only database. Indeed, British historian R.G. Collingwood called his field “the science of human action.” The study of history in the corporate world shows how strategies (effective ways of dealing with the world) are developed from competencies (clusters of good habits learned over time, often through a process of guided trial and error). This year’s best management books are worth reading because they are combinations of narrative and paradigm.
Competency to Strategy

In *Big Brown: The Untold Story of UPS*, journalist Greg Niemann explains how a messenger company founded in Seattle in 1907 grew into the world’s largest package delivery company, United Parcel Service Inc. It is the story of how clusters of competencies, acquired through detailed on-the-ground experience, slowly evolved into strategies that could be applied on a global scale.

The drive, focus, and character of founder Jim Casey (1888–1983) are central to the story. Casey’s early life is reminiscent of that of Andrew Carnegie — a bright boy born into indigent circumstances and forced to work at a tender age to support his family. The Caseys moved to Seattle just as the Klondike gold strike of 1896 created an economic boom in the city. With his father ailing, Casey left school at age 11 and took a job as a driver’s helper making deliveries for a department store. Then, like Carnegie before him, the boy went to work at a local telegraph office, getting an inside view of the message delivery business.

In 1907, Casey and a close friend founded the American Messenger Company, offering the best service and the lowest rates. From the start, they hired and trained the most talented people they could find. Soon they partnered with a local motorcycle-based service and offered Seattle’s department stores an opportunity to outsource their delivery activities. It was the upscale nature of this business that persuaded the partners to adopt a close variant of Pullman Brown, the elegant color of the railroad sleeper cars, as the finish paint for their trucks.

Niemann, who worked for UPS for almost 35 years, does a fine job of conveying Casey’s monk-like devotion to the business and his belief that service is “the sum of many little things done well.” This intense focus on the elements of service excellence — systems, operations, and people — meant that UPS was well prepared to respond to the contingencies of the 20th century. As the demands of World War I on the American workforce crimped the ability of department stores to make their own deliveries, UPS expanded along the length of the Pacific Coast. The post–World War II population migration in the U.S., as people moved from cities to suburbs, and the rise of the personal automobile limited the growth of the retail delivery market, and UPS entered the wholesale common carrier business, at which, aided by deregulation, it soon excelled.

Not all new ventures succeeded. A move into Germany in the mid-1970s attempted to export too much of UPS’s American culture and led to substantial losses before the firm could adjust. The rise of the FedEx Corporation, beginning in 1973, with its hub-and-spoke air-based model, took the company by surprise (the model was the antithesis of UPS’s city-by-city approach). It required eight long years before UPS could match FedEx’s Memphis hub with its own massive center in Louisville, Ky.

Missteps aside, by the end of the 20th century, UPS found itself ideally positioned to exploit the new emphasis of global business on logistics and supply chain management, and it offered a plethora of services to organizations ready to outsource these functions. After an agonizing decision-making process, the company decided to go public in 1999, a decision with both beneficial and problematic consequences. Many insiders earned huge premiums on their stock holdings, but employees could no longer rely on the steady appreciation of an internally set, conservative stock price, and now had to cope with shareholders who did not share their devotion to the company. Nevertheless, UPS’s continuing ability to learn from its own experience, which harks back to its founder, would seem to stand it in good stead.

Mr. Fix-it

There was concern in some quarters over the timing of the release of Steve Miller’s *The Turnaround Kid: What I Learned Rescuing America’s Most Troubled Companies*. The large auto parts manufacturer Delphi Corporation, Miller’s last project, was unexpectedly delayed in its emergence from Chapter 11 bankruptcy, and it was feared that Miller’s unflattering comments about both the United Auto Workers and the General Motors Corporation might jeopardize the firm’s progress. These fears seem overblown. Miller’s comments are hardly incendiary, and it is highly unlikely that the parties concerned were unaware of his opinions of them. Miller’s
corporate clients were typically in extremis, and although many inside the firms may still be in denial about the gravity of their plight, such denial was a luxury that Miller, as an outside turnaround expert, could not afford.

It is Steve Miller’s capacity for acute assessment of corporate situations and blunt statement of issues that resonates throughout the book. His candor applies equally to his personal life. In most businessmen’s memoirs, the executive’s wife is a shadowy figure, if she is mentioned at all. But Maggie, Miller’s wife for nearly 40 years, is front and center, a true partner in his career. Miller is brutally honest about both the joys and the woes of the family life of a busy executive. Maggie, who died in 2006, was his mirror, feeding his ideas back to him and giving her own clear, candid assessment of situations and people. She also had deep insecurities that led to erratic behavior when she was under stress. Anyone who has lived the corporate life, with the immense strain that it can put on family relationships, will hear the ring of truth in this.

Although many of Miller’s clients are in essentially the same straits, he offers no formula for success. The ideas he extracts from his experience are straightforward: Tell everyone the truth, especially if it hurts; don’t study things to death; listen to your customers. The ideas Steve Miller extracts are straightforward: Tell everyone the truth, especially if it hurts; don’t study things to death; listen to your customers.

lobbying: Mileage is determined with the air conditioning off, for example, deterring work on more efficient cooling systems. Miller says that if he were energy czar, he would add a dollar or two in taxes to the price of a gallon of gas as a way of stimulating adaptive change.

Short of a national emergency — a political version of Chapter 11 — this is unlikely to happen. But Miller’s success at getting companies to focus on what makes them successful only underlines the fact that it is not a lack of good ideas that hinders a nation’s ability to develop and implement coherent public policy, but an inability to get things done.

A Close Shave

James M. Kilts, the former chairman and CEO of Gillette Company, together with two former business associates, John F. Manfredi and Robert L. Lorber, has melded business autobiography with management advice in Doing What Matters: How to Get Results That Make a Difference — The Revolutionary Old-school Approach. Kilts’s career in the U.S. consumer goods industry, starting at firms such as General Foods and culminating with stints as CEO, first of Kraft Foods Inc. and then of Nabisco, seems to have been the ideal preparation for his spectacular turnaround of Gillette between 2001 and 2005. After a career spent in this quintessentially American industry, he clearly understands its priorities.

A conceptual framework consisting of four elements provides the structure on which the book’s stories are hung. These elements, according to Kilts, are the ones that matter for business success: fundamentals, attitudes, and people; leadership; the future; and doing the right things. This is an effective way of organizing the book, but a problem arises because the overall story is one of unalloyed success. Kilts seems never to have made any mistakes (except when he was very young), and as a result he comes across as a curiously flat figure.

It is true that the turnaround Kilts executed at Gillette is stunning. When he was appointed CEO in 2001, the first outsider to run the firm in 70 years,
Gillette had missed its earnings forecasts for 15 straight quarters and entered what Kilts calls the “circle of doom.” This is a vicious circle in which management, beguiled by Wall Street, issues unsustainable growth forecasts, overspends on capital and overhead, and then, when the unrealistic sales fail to materialize, hikes prices, cuts marketing expenses, and stuffs the trade channel with special offers. Trade customers swiftly learn to game this system by delaying their orders until the end of the financial period, which further hammers margins, disrupts production schedules, and sucks up working capital to fund large inventories and bloated receivables. Insiders are usually helpless to escape the system in whose design they have been complicit, and it takes an outsider like Kilts to break the cycle. Kilts did: By 2005, he and his team had created more than US$26 billion in value for shareholders; he then sold the company to Procter & Gamble Company. Kilts prospered, too. He earned more than $160 million for four years’ work.

There is a vicarious thrill to reading Doing What Matters and following along as a manager with deep industry knowledge and competencies recharts the course of one of America’s iconic marketing companies. But how applicable to other situations are the lessons here? At some level, like Steve Miller’s lessons, they are nothing but applied common sense. The larger challenge for many managers is to be able to get into situations where they have carte blanche to act, as Kilts and Miller did. Even then, there may be only a few businesses where such rapid transformations are possible.

On another front, the Gillette story is instructive for its demonstration of how malleable consumer desires are in the hands of skilled marketers. In 2002, Gillette’s archrival, Schick Wilkinson-Sword, came out with a four-blade razor to counter Gillette’s three-blade Mach 3 Turbo. Gillette, with its next real razor development more than a year away, responded with a flashy advertising campaign featuring the Mach 3 Turbo Champion, identical to Turbo except for the color of the handle. The Schick Quattro was stopped dead in its tracks. Similarly, a repositioning of Procter & Gamble’s Duracell battery line was all that was needed to revitalize the brand and restore real growth.

It would have been satisfying if Kilts had squarely addressed the controversy that arose over the outsized rewards he received at the end of his four-year campaign at Gillette and its sale to P&G. After all, he and his team did not create value in Gillette so much as they released it. And although Kilts argues that Gillette’s factories in the Boston area were preserved, there is no doubt that the loss of headquarters functions, and the local purchasing they generated, represented a significant loss to the community.

**Hamlet at Work**

In this year’s best management book, Family Wars: Classic Conflicts in Family Business and How to Deal with Them, Grant Gordon, director general of the Institute for Family Business in the United Kingdom, and Nigel Nicholson, professor of organizational behavior at the London Business School, amply illustrate the latter part of Tolstoy’s maxim: “All happy families resemble one another; every unhappy family is unhappy in its own fashion.” The twist here is that the families whose unhappy stories are told are the founders and owners of some of the most successful businesses in the world.

Family businesses are the backbone of most economies, and many public companies began as family businesses. There is much to be learned from them, for the family is a cauldron in which emotions, responses, and behaviors are heightened. Their spontaneity, openness, and passion have the potential to create benefits for a business, but when problems arise that involve issues such as identity and self-esteem and fairness and sibling rivalry, great harm can result.

Believing that the lessons learned from failure are more powerful than those learned from success, the authors examine 24 family businesses in Europe, North America, and the Far East, organizing their stories into five sections that reflect a continuum of family strife that ranges from warring siblings to total “uncivil” war among family factions. In the process, they explore the issues with which these businesses grapple, including the nature of familial warfare, how such conflicts arise, how relatedness affects conflict, and how the key dynamics
within families unfold.

The conceptual framework in *Family Wars* is a loose amalgam of evolutionary, family, and individual psychology. Parenting styles seem to be particularly important, with entrepreneurial drive often being accompanied by an authoritarian style that continually employs top-down power and offers little emotional support for the children. The effect of this varies. For instance, if the family is small and has male children whose ages are close together, it can lead to intense rivalry, as seen in U.S.-based Koch Industries Inc. and India’s Ambani family empire, Reliance Industries Ltd.

Gordon and Nicholson conclude the book with a summary of the five major risk factors for family businesses and some remedies for dealing with them. For countering nepotism, they suggest formal hiring policies and development programs for family members, regular appraisals and feedback, and the hiring of outsiders of the highest caliber. Intergenerational struggles can be mitigated by ownership continuity plans and the use of nonfamily professionals in governance and leadership roles. Disagreement over remuneration and rewards can be avoided by liquidity and exit policies that allow family members to access their capital and diversify their holdings. Sibling rivalry can be reduced by the clarification of roles, constant communication among the siblings, and even the appointment of an ombudsman. Finally, the major challenge of getting strong founders to let go can be addressed by setting enforceable retirement ages while providing the opportunity for founders to play senior statesmen roles.

Uncategorical Insight

by James O’Toole

In an era when even the dividing line between fiction and nonfiction is blurred, it has become difficult to precisely define the business book. Should David Nasaw’s *Andrew Carnegie* (reviewed here last year) be shelved in history, biography, or business? Similarly fuzzy are distinctions between subcategories of business books. Is...
Lou Gerstner’s instructive tale of the transformation of IBM (Who Says Elephants Can’t Dance?) a management book, a leadership guide, or a corporate history? The fact is that many books of value to executives inhabit what novelist Michael Chabon described as “the boundary lines, the margins, the secret shelves between the sections in the bookstore.” Thus, this year, I take a look at four fine books that defy categorization and fall between the cracks. Each differs greatly from the others in terms of subject matter, but what they have in common is that they all are far better written than most books that can be set squarely on the business shelf.

In contrast, the books reviewed below need to be read carefully; they require the investment of thought. These are books you actually will want to read.

Autobiography (Sort Of)

My favorite and the year’s best border-spanning book is Charles Handy’s Myself and Other More Important Matters, which its publisher correctly, and unhelpfully, places in the business/autobiography/economics/social science category! Handy is America’s favorite British management guru, the Peter Drucker of the other side of the pond, and for two decades, his books have inspired a common reaction among American business authors: envy. His prose is graceful, engaging, and literate in a manner to which most American business writers can only aspire. Warren Bennis, America’s best business writer (and in the spirit of disclosure, along with Handy, a good friend of mine), praises Handy’s “philosophical elegance and eloquence,” his unique ability to elevate the mundane concerns of commerce to a higher plane. He’s right; Handy’s books are gems of distilled wisdom. It is not that he comes to conclusions terribly different from those of his peers; he simply articulates them more crisply and with greater clarity. In a single paragraph, he can illuminate the essence of a complex idea that an American business professor would take a chapter to obfuscate.

Gifted as he is, Handy is humble. This is not your Sandy Weill “let me tell you how wonderful I am” variety of autobiography. Handy reveals only a few necessary details of his life. Instead of a chronology of his accomplishments, he offers a series of short chapters, each encapsulating the lessons he learned at the major stops along his life’s journey. Each chapter is a profound rumination on experience, imparting wisdom gleaned from a thoroughly and honestly examined life, which appears to have been a life well led, indeed.

Drawing on his experiences as an executive at Shell; a founder of the London Business School; a BBC commentator; and a son, husband, and father, Handy draws useful lessons for business managers. He makes compelling connections between the commonplace, on the one hand, and the great questions challenging corporate leaders, on the other. For instance, he uses a debate about whether it was better for his family to rent or own a home to illuminate how to determine the proper form of corporate ownership. (He concludes that the best society is characterized by extensive employee ownership.)

Handy uses an insight gained as a graduate student at MIT’s Sloan School of Management to suggest a shift in business school curriculum. “By the end of the program I realized that I had really known most of the important things all along,” he writes. “But I had to have gone there to find that out. By that I don’t mean to diminish the experience. We all go through life accumulating a bundle of private learning. Much of the time, however, we don’t know that we have it. It is lodged in our subconscious. To make it more readily available when we need it we have to drag it out into our conscious mind. That was what MIT did for me.”

Handy then briefly describes what a business school curriculum designed to educate that knowledge might look like — and that curriculum has few similarities to what is taught at most business schools. He explains the need to educate a new cadre of corporate leaders focused on the “why” rather than the “how” of business. In a mere 13 pages, he summarizes what those leaders need to know, distilling the wisdom that might be found in a review of the best management books ever written, and crafting it all into a coherent, practical whole.
Although Handy writes on an elevated philosophical plane, it is striking the degree to which his thinking is consistent with, and reinforces, cutting-edge organizational research. For example, he shows why organizational self-renewal is as necessary as individual human development, and how the two processes are similar. As he explains the connection, it becomes so obvious that the reader is left wondering why so few business leaders see it or act on it. In the late Sumantra Ghoshal’s apt phrase (originally applied to Peter Drucker), social philosopher Charles Handy is a brilliant practitioner of “the scholarship of common sense.”

**Sociology (Kind Of)**

Richard Sennett’s *The Craftsman* is about the old-fashioned virtue of doing a job well for its own sake. He addresses a fundamental question all employers should, but too often don’t, ask: What is “good” work? That is, what characteristics of a job make it motivating, interesting, rewarding, and, above all, developmental?

Sennett, a professor of sociology at New York University and the London School of Economics, searches high and low, far and near, past and present, to help us find answers. He moves effortlessly from Homer’s description of Hephaestus, the Greek god of fire and patron of craftsmen, to an explanation of the work done by Linux software engineers. He offers insights from Diderot, Ruskin, and Wittgenstein, as well as from Tom Peters, Robert Waterman, W. Edwards Deming, and Julia Child.

In these intellectually challenging pages, we learn what is lost in human terms when work is de-skilled, when the design of jobs wittingly or unwittingly breaks the “intimate connection between hand and head.” We come to see that workers are ultimately motivated by the opportunity to develop and exercise skill on the job, whether workers are carpenters, physicians, accountants, reporters, or Starbucks baristas. Were Starbucks CEO Howard Schultz to read this book, he would discover why the quality of the coffee and service in his shops deteriorated when the company introduced automated espresso machines. When baristas have the ability to grind coffee themselves, tend to the entire process of brewing, and estimate the right amount of foamed milk in a cappuccino, they become skilled craftsmen (and women). In the process, they create both a better cup of coffee and more satisfied customers.

I don’t know if this book is history, philosophy, or social criticism, but its author is one of the last remaining broad-gauged sociologists that once included such “public intellectuals” as David Riesman, Seymour Martin Lipset, Daniel Bell, Robert Merton, Daniel Patrick Moynihan, and Sennett’s closest precursor, C. Wright Mills. An entire generation of post–World War II undergraduates avidly read those learned generalists to discover why we lived in a society deeply divided by invisible barriers of class and caste. Those writers were domestic anthropologists exploring the mores of our own exotic culture, documenting our often unconscious striving for status in corporations and suburbia. Alas, the discipline of sociology is dominated today by technicians — statisticians rather than scholars — whose narrow writings are of interest mainly to their academic peers.

But Sennett’s book should be read by everyone who employs another human being or who is responsible for what is called “human resources.” In recent decades, corporate executives, HR professionals, and business professors have lost sight of what a previous generation — I think of Herman Miller’s Max De Pree, Nucor’s Ken Iverson, W.L. Gore’s Bill Gore — understood well: It is incumbent upon organizations to create “good work” for all their employees.

Sennett writes that John Ruskin “sought to instill in craftsmen of all sorts the desire, indeed the demand, for a lost space of freedom; it would be a free space in which people can experiment,” much as Bill Gore, 100 years later, gave all his employees time and space to develop their own innovative projects. When able to exercise such control over their own jobs, employees become empowered to develop their skills and to realize their humanity through their work. By putting the focus back on the profound issues of job design and the nature of work, Sennett provides a needed antidote to all those HR texts cluttering the shelves of managers on such trivial topics as outsourcing the firm’s dental plan, online recruiting, and “rocks and ropes” training.

**History (Somewhat)**

Sennett makes an ethical connection between being a craftsman and being part of a community, a connection that Rakesh Khurana finds almost entirely missing in the management profession. In *From Higher Aims to Hired Hands: The Social Transformation of American Business Schools and the Unfulfilled Promise of Management as a Profession*, Khurana, a management professor at the Harvard Business School best known for his
writing on leadership, has produced an instant classic.

Earlier this year I recommended this book to scholars and university deans and administrators; subsequently, I have been pleasantly surprised by the number of business managers who are reading and quoting from it. I believe this scholarly book has become popular because it describes the historical context in which graduates of the nation’s leading business schools ended up becoming perpetrators of fraud at companies like Enron.

Khurana has a simple explanation for why unethical business leaders aren’t condemned by their profession in the fashion of medical and legal malpractitioners: Management isn’t a profession. Unlike the “learned professions,” management lacks an established body of knowledge, a community of practitioners with standards of expertise and conduct, qualifying examinations, and “attitudes of communalism, disinterestedness, and a societal orientation.”

In essence, the malefactors at Enron couldn’t be read out of their profession because they were not, in fact, members of a profession to begin with — even though the convicted Jeffrey Skilling and Andrew Fastow held MBAs from prestigious schools of business. Rather than professionals, they are more accurately characterized as self-interested technicians and hired guns. And sadly, that’s what corporate executives are assumed to be by many leading scholars in top-tier business schools; by extension, that is how they are taught and, in many cases, how they end up acting.

But things didn’t start out that way. Khurana shows that the stated purpose for founding the first business schools a century ago was to educate a class of business leaders who were intellectually and morally equipped to address the nation’s fundamental social and economic problems. The founders of the business schools of the University of Pennsylvania, Dartmouth, and Harvard were public-spirited men intent on turning management into a respected calling with a higher purpose in terms of public service — similar to law, medicine, and even theology. Khurana describes the near-religious beliefs those founders had about the potential for business leaders to make great contributions to society, if they were broadly and liberal educated and were socialized to see themselves as members of a professional community.

That belief, or, more accurately, hope, remained alive until the end of World War II. Then the world changed, and with it the raison d’etre of the business school. Khurana explains how this “very ill defined institution” came to reflect both the changing social order of its times and the changing role of business in society.

As the U.S. sought to meet the scientific challenge presented by the Soviet Union in the 1960s, the country’s business schools were called upon to play a major role. The primary agent of change was the Ford Foundation, which used its significant financial leverage to encourage radical curriculum reforms. Drawing on the work of former Ford president and Secretary of Defense Robert McNamara and his so-called Whiz Kids, the foundation provided incentives too rich to refuse to business schools willing to put management science at the heart of their programs. In the blink of an eye, almost all top-tier schools were teaching quantitative analysis, decision theory, model building, and operations management. The old professoriate — schooled in the operating trenches of big business — were extruded and replaced by a young generation of “quantoids” with degrees in engineering and economics.

To the degree this shift in focus and staff introduced intellectual rigor to the educational enterprise, it was positive; but the negative consequence was that the non-quantifiable stuff of leadership — judgment, ethics, people, Handy’s “why” — was lost. And out with the old went the original high purpose of the institution. From there it was a hop, skip, and jump to where we are today: topflight business schools that are recruiting grounds for investment banks and private equity firms whose myopic focus on short-term profit has led, more than anything else, to the behavior we now lump under the category “Enron.”

I have telescoped Khurana’s argument, perhaps making the book seem like a polemic. In fact, it is an evenhanded, comprehensive, and exhaustively documented work demonstrating how the history of the American business school is the history of American business, reflecting the evolution from 19th-century entrepreneurial capitalism to mid-20th-century managerial capitalism to today’s investor capitalism. Criticisms of today’s business schools abound, but Khurana provides the historical perspective needed to understand how those institutions became what they are.

Fiction (Mostly)

An enduring mystery of literature is the near-total absence of great fiction set in the world of business. There are countless examples of brilliantly crafted tales of men and women who work in hospitals, govern-
ments, universities, police departments, and military settings — and more than a few excellent novels concern machinations in legal chambers. But there is no War and Peace of the corporation. This is especially puzzling because more people are engaged in business than in any other form of employment, and there is obvious high drama involved in takeovers, turnarounds, and the Darwinian competition found in the C-suite. Logically, one would expect to find more than a few great works of business fiction; yet, in practice, that’s nearly a null set.

For the last three decades, I’ve kept an eye out for a great novel that deals seriously with men and women of the corporation, and the closest I’ve come is Cameron Hawley’s *Executive Suite* (published in 1952 and made into a film starring William Holden, Fredric March, and Barbara Stanwyck by MGM two years later). Hawley had a real grasp of what goes on at the top of large companies, and he largely avoided stereotyping executives. But he, his book, and the film are now dated and all but forgotten. This leaves us today with an empty field.

So I eagerly picked up *Minding the Store: Great Writing about Business from Tolstoy to Now* hoping that the editors, Robert Coles, the former James Agee Professor of Social Ethics at Harvard University, and Albert LaFarge, a literary agent and former deputy editor of *DoubleTake* magazine, had succeeded where I had failed and identified literary masterpieces that truly illuminate the lives of managers and the business challenges they face. I can report that the readings in this collection are, as billed, marvelously crafted examples of “great writing.” Sadly, though, none of the fiction, including works by such masters as John O’Hara, Raymond Carver, John Cheever, Anne Beattie, Flannery O’Conner, O. Henry, Joseph Conrad, John Updike, and Leo Tolstoy, is truly about business.

These enormously entertaining stories — variously funny, insightful, profound, surprising — deal artfully with the human condition, particularly as it relates to greed. But the businesspeople portrayed turn out to be grifters, con men, and stereotypical used-car and traveling salesmen (along with a few “old misers”). You have to be more cynical than I am to believe this cast of char-acters is representative of the business community.

Only the three nonfiction pieces — personal accounts by William H. Whyte, Jill Nelson, and Gwendolyn Parker of their youthful initiations into the corporate world — deal with the world that the readers of this magazine would recognize as business. It’s my guess the editors were forced to include these factual reminiscences after they discovered that great fiction about business is nonexistent. Even the excerpt included from Sinclair Lewis’s classic *Babbitt* — often cited as the quintessential business novel — merely serves as a reminder that babbitry is a synonym for narrow-mindedness, and that the novel’s eponymous hero could just as well have been a postal clerk as a businessman.

Although the readings in this collection didn’t provide me with the holy grail that I seek, I intend to assign the book to my MBA students because of the important ethical questions raised by the authors. For example, O’Hara’s “The Hardware Man” presents a truly challenging dilemma about the ethics of firing embezzlers. The story deals with two employees who are clearly stealing from the trusting owner of the store at which they have worked for years. When a new owner takes over, he fires the two. Of course, we conclude, they had it coming. But O’Hara then reveals a bit more information, and, suddenly, the reader’s certainty about the justice of the embezzlers’ fate is put in doubt. The author shows that sometimes it’s hard to tell who the bad guys are, and not always clear how to deal with them. I also plan to give copies of the book to friends who love fine literature. As for finding the Great American Business Novel, I shall continue my enduring quest. +

*John O’Hara’s story “The Hardware Man” shows that sometimes it’s hard to tell who the bad guys are, and not always clear how to deal with them.*

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