Best Business Books 2009
by Clive Crook, Charles Handy, Phil Rosenzweig, Ayesha Khanna and Parag Khanna, Judith F. Samuelson, Catharine P. Taylor, Steven Levy, and James O’Toole
NO MATTER WHAT THE FUTURE holds, the Great Recession of 2008–09 has had a seismic impact on the global business landscape and has called into question its philosophical and systemic foundations.

Certainly, it has been keenly felt among publishers and booksellers. In May 2009, year-to-date sales of professional books in the U.S. were down 6.8 percent from the year before, according to the Association of American Publishers. The recession also colors the writing — and the reading — of this year’s s+b best business books essays in ways both obvious and subtle.

The most direct manifestation is evident in the appraisal by Financial Times commentator Clive Crook of the books that seek to make sense of the recession, its implications, and its ramifications. In barely more than a year, the business section has become crowded with such books, but with the story still unfolding, none of them yet are comprehensive. Crook’s picks provide the multiple levels of perspective needed to appreciate the recession’s many facets.

Ayesha Khanna, managing director of Hybrid Realities, and Parag Khanna, New America Foundation senior research fellow, team up to review books on the changing topology of global business. They find changes in regional trading patterns and increasingly dynamic emerging economies that will challenge any established player — all evidence of an ongoing shift in competitive power that is sure to accelerate if the U.S. economy remains stagnant.

As one might expect, our management and leadership essays are rife with recession links. In the former, Judith F. Samuelson, the founder and executive director of the Aspen Institute’s Business and Society Program, searches out books that reveal the recession’s silver lining: its challenges to outmoded ways of thinking about management and governance. In the leadership essay, Charles Handy, whose memoir was one of 2008’s Top Shelf selections, mines books on topics as diverse as America’s Puritan settlers and the Buddhist Tzu Chi movement for insights into how to begin mending the torn fabric of leadership.

The University of Denver’s Daniels College of Business professor James O’Toole grounds his review of this year’s best biographies in a hefty tome about a 19th-century prime mover, John Stuart Mill, whose advocacy of free markets and private ownership res-
onates amid the dramatic government response to this economic crisis. IMD professor Phil Rosenzweig returns for an encore performance in the strategy category, pointing us toward books on intellectual property and dynamic capabilities in an effort to identify enduring strategic advantage. Rosenzweig also recommends a new book on Enron that takes us back to the last recession and explores the perils of stretching any strategy too far.

Marketing maven Catharine P. Taylor is back as well, with a proposition that should raise executive eyebrows: Branding is becoming an open source endeavor. She calls out Twitter — the subject of almost as many new books as the recession — as one of the leading technological mechanisms enabling this phenomenon. Steven Levy, senior writer at *Wired* and newcomer to our pages, broadens the thesis by reviewing books that explore the disruptive power of technology and what happens when companies such as MySpace don’t heed that power.

This year’s best business books help us understand current conditions and chart a secure course forward. With luck, next year’s best books will offer similar insight into a recovery of historic proportions.

— Theodore Kinni
The definitive account of the financial meltdown of 2008–09 has not been written, and cannot be just yet because the story is unfinished. A degree of stability returned to financial markets this summer, but the system is still stressed and nobody can be sure what will happen next. The broader economy shows signs of recovery, but unemployment is high and likely to rise further, a prospect with political and economic implications still unknown.

By the autumn of 2009, only a small part of the huge fiscal stimulus deployed against the downturn in the U.S. had made itself felt. In monetary policy, the Federal Reserve and its counterparts intervened to support the banking and credit systems in new ways and on a wholly unprecedented scale. To call these interventions “unfinished business” would be putting it mildly. Meanwhile, not just the future is uncertain. The next surprise could change our understanding of what has happened so far, as earlier shocks already have.

Never mind: A crop of new books on the subject has already come to market. All were written under the pressure of short deadlines and fast-changing circumstances — and, as you might expect, many were worthless on arrival. But there are some splendid exceptions. The best books from this first crop are fine by any standard.
Among the successful books, the range of explanations for the crisis is wide. Some focus on economic policy, others on closely reported tales of greed and fallibility. One locates the root cause in the triumph of finance over manufacturing in the United States. Another asks whether capitalism itself stands condemned. Just as the crisis had no single source, there is no single way to best tell what happened. This makes it hard to say which book is best. Nonetheless, if forced to choose just one, I would pick David Wessel’s *In Fed We Trust: Ben Bernanke’s War on the Panic* — an excellent work on a crucial aspect of the story, and one that addresses my professional interest in economic policy.

**The Fed’s-Eye View**

Wessel, the *Wall Street Journal*’s economics editor, tells the story from the point of view of policymakers in the Department of the Treasury and the Federal Reserve, and especially that of Ben Bernanke, the Fed’s chairman. The book is beautifully written and a gripping read throughout. Although Wessel provides enough context to make the crush of events intelligible, unraveling causes is not his main concern. *In Fed We Trust* is about how the key officials coped, usually none too confidently, with the torrent of disasters that began in 2008. The cast includes Bernanke; Henry Paulson, who was Treasury secretary in the Bush administration when the crisis broke; Timothy Geithner, president of the Federal Reserve Bank of New York when the emergency started and now Barack Obama’s Treasury secretary; and many others in cameo roles.

Wessel’s telling arouses sympathy for all the main players. Mistakes were made, to be sure, but they were not obvious errors at the time. These leaders all did their best in extremely trying circumstances. Still, some of the principals emerge looking better than others.

Wessel is not much impressed with Paulson, arguing that his trader mentality — instinctive more than calculating, inclined to abrupt and unpredictable changes of position — was ill suited to the problem. Greater consistency was needed. No doubt, but was anybody inside or outside government supplying that at the time? George W. Bush is also somewhat unfairly impugned for choosing to take a backseat. When you recall that his rare interventions on the subject unsettled markets more than calming them — that deer-caught-in-the-headlights affect was enough to panic anybody — you might thank him for recusing himself as often as he did.

It is hard to disagree with Wessel’s criticisms of Alan Greenspan, Bernanke’s once-lionized predecessor at the Fed. If any official should have acted to avert this crisis, either by raising interest rates sooner to choke off the credit boom, or by bringing subprime mortgages under stricter regulation, it is he. Again, though, one should remember that Greenspan was little criticized on either score while the bubble was inflating. As recently as 2007, the politicians and commentators now pillorying him were cheering him on.

Many would say that Geithner faltered in his early days as Treasury secretary. He started under a cloud because of his difficulties during confirmation; he was ridiculed for his first lamentable performance for the cameras; and his previous position at the New York Fed implicated him in the mess. Lately his stock has risen, and he will not be displeased with Wessel’s essentially sound take on him. The book treats him kindly, calling him calm and coherent, and well prepared to lead by his experience from earlier financial crises.

Wessel touches on wider issues, but he keeps the focus on the Fed. This emphasis guarantees the book an extended shelf life, because the salience of the Fed is only going to grow, not just in the domestic economy but internationally as well. The awkward unwinding of the Fed’s financial interventions, its role in managing the dollar and the external deficit, the new duties envisaged for it in the Treasury’s blueprint for financial regulation, and the disenchantment of many in Congress with the way it has performed — raising the possibility of stronger external oversight, which Bernanke opposes strenuously — all put the Fed at the center.

**A Myriad of Causes**

*In Fed We Trust* is superb, but if you want a brisk overview of the whole story, Wessel’s book is not it. Here the honors go to the new edition of *Financial Shock: Global Panic and Government Bailouts — How We Got*
Here and What Must Be Done to Fix It, by Mark Zandi, the chief economist of Moody’s website Economy.com.

As he finished work on the first version in the summer of 2008, Zandi wrote, “The worst of the crisis appears to be over.” Not long after, the authorities made their fateful decision to let Lehman Brothers go bankrupt. That decision, which most observers now regard as a terrible error, shut the credit system down and precipitated the full fury of the crisis.

This gives Zandi reason to argue — as he does, in this revised edition — that the Lehman decision “turned a serious yet manageable financial crisis into an out-of-control financial panic.” Yet in Zandi’s view, although mistakes were made, they were not inexplicable or downright stupid. His retelling of his own mistaken prediction seems to inoculate him against the 20/20 hindsight to which most authors on this subject fall prey. He writes with a keen sense of the complexities that confronted policymakers. He is level-headed and fair.

Of all the books in this review, Zandi’s ranges most widely over the economic causes of the meltdown. He discusses the sources of the surge in subprime lending; the American obsession with home ownership; the tax breaks that promote borrowing of all kinds; the roles of financial engineering, loan securitization, and exotic financial instruments; attitudes toward risk; the role of the rating agencies; monetary policy before and after the credit crunch; fiscal policy; regulatory policy — you name it.

Lacking the flair of a David Wessel, Zandi nonetheless writes clear, straightforward prose and puts this bewildering mass of material in some kind of order. He ends with a 10-point checklist of actions we can take to avoid the next crisis. The seventh one is “Fix Securitization, Don’t Scrap It.” That is, regulate the complex repackaging of assets more carefully, don’t regulate it out of existence.

Fix securitization, don’t scrap it,” Mark Zandi writes. Regulate the complex repackaging of assets more carefully, don’t regulate it out of existence.

to set the short-term interest rate at 10 percent: one and a half times 5, plus half of 3, plus 1. From the late 1980s onward, deliberately or otherwise, the Federal Reserve followed the rule. Earlier this decade, it stopped.

Aiming to speed the recovery from the previous recession, the Fed cut interest rates in 2002 and kept them low even when the Taylor rule said to raise them. Hence the boom in house prices, hence the boom in mortgage borrowing. Taylor presents a simulation that shows what would have happened with “normal” interest rates: no meltdown.

This mono-causal explanation is not altogether persuasive. A once-in-a-half-century crisis, which this is, must be a perfect storm of multiple forces. A lot has to go wrong at once; otherwise, such wrenching events would be commonplace. Yet Taylor believes in the one true cause. Questionable as this approach may seem, in fact he makes a powerful case. At the very least, he establishes the centrality of monetary policy earlier in the decade among the various causes, a perspective that is lacking in many other accounts. Extra marks for brevity, too. The main text runs just 60 pages. They are well worth reading.
A Fly on the Wall

Fool's Gold: How the Bold Dream of a Small Tribe at J.P. Morgan Was Corrupted by Wall Street Greed and Unleashed a Catastrophe, by Gillian Tett of the Financial Times, and House of Cards: A Tale of Hubris and Wretched Excess on Wall Street, by William D. Cohan, investment banker turned financial writer, zoom in, minutely reporting a fragment of the action, hoping to clarify the bigger picture, ever in search of a ripping good yarn.

Tett turns the microscope on the elite team of bankers at JPMorgan that in the 1990s developed a family of new financial instruments — credit default swaps, synthetic collateralized debt obligations, and other so-called credit derivatives. These were seen as a way to manage risk more effectively, and to spread it around. Investors could fine-tune their exposure in more sophisticated ways, diversifying their risk or concentrating it, according to what made sense for them.

As these derivatives caught on, financial engineers at other firms married them to recent innovations in mortgage finance. Mortgage debt could now be sliced and diced, and the pieces traded every which way. The breakthrough was combining debt securitization and credit derivatives. Soon the traditional mortgage loan — lender, borrower, documented income and assets — was regarded as passé. The new technology encouraged the spread of much riskier arrangements, extending even to “ninja” loans (no income, job, or assets) that came close to sanctifying fraud. But the risk was always under control, you see, because those guys at JPMorgan really knew their stuff.

In a way, they did. Tett explains that despite coming up with the new techniques and selling them to others, the firm consistently exposed itself much less to the dangers, as they proved to be, than did more adventurous outfits such as Bear Stearns and Lehman. Partly for this reason, she has been accused of being too sympathetic toward her sources at JPMorgan. That was not my feeling. These people were not evil, and in a way, that is the point. They worked insanely hard and had brains to spare. They saw themselves as pioneers — getting rich, to be sure, but doing it by inventing a marvelous new technology, not by gulling anybody. However, despite the brains, the work, and the good intentions, the risk got out of control.

In House of Cards, Cohan does for the team at Bear Stearns what Tett does for JPMorgan — but with a tighter focus on the instant of Bear’s demise and everything that brought the firm to that point, plus amped-up disapproval of the principals. These characters might not actually be evil, but, in Cohan’s telling, they are certainly disagreeable: brash, bullying, loudmouthed, foulmouthed, and oozing testosterone — reminiscent of the sociopaths described by Michael Lewis in Liar’s Poker: Rising through the Wreckage on Wall Street (Norton, 1989), the seminal work (forgive the expression) of this genre. Of course that book was a fabulous, irresistible read, and so is House of Cards.

Cohan’s sourcing is especially impressive. The book is richly detailed and brilliantly constructed. Its only real flaw is that the Bear Stearns failure no longer seems as significant as it did pre-Lehman. That is an odd thing to say, admittedly. At any other time, the collapse of a once-mighty investment bank would have been regarded as a monstrous shock in its own right. From where we stand now, it looks like a lesser part of the story.

Fundamental Systemic Flaws?

Moving to the opposite extreme, two books zoom out wider even than Zandi’s encompassing perspective. They take in more than mere issues of economic management, and ask questions that are bigger still.

Richard A. Posner’s A Failure of Capitalism: The Crisis of ’08 and the Descent into Depression tries to say what kind of calamity this really is — is it a breakdown caused by structural flaws in the market system, or the end result of an orgy of individual greed and irrationality? One could always say it was both, but Posner takes the more intriguing line of arguing it was the former and not the latter. The people involved were no more or less rational than usual, he says; on the whole, they acted in their own best interest. The problem is that an outright depression — for that is what we are in, according to Posner — is so rare an event that investors cannot sensibly take account of it. “The profit-maximizing
businessman rationally ignores small probabilities that his conduct in conjunction with that of his competitors may bring down the entire economy,” he writes. Through the systemic vulnerability of the market economy, individual rationality conspires to cause a collective nervous breakdown.

It is an interesting argument, though not in my view a very convincing one. You can pick any of the other books mentioned here for instances of outright individual irrationality—ninja loans, for one; debt valuation models that returned “cannot compute” when asked to contemplate a fall in house prices, for another; the list is long. *A Failure of Capitalism* is indispensable nonetheless, for Posner’s trademark intellectual vitality and his tireless instinct to start a quarrel. And it is a pleasure to find that a public intellectual of Posner’s amazing productivity—he seems to publish a book every six months—is still capable of surprising his readers. Despite his free-market instincts, his book confronts the limits of the market system.

The most scholarly book of the bunch, with due respect to Posner, is Gerald F. Davis’s *Managed by the Markets: How Finance Re-Shaped America*. Davis is a professor of management at the University of Michigan, with particular interest in sociology and finance. He steps back farthest of all, and asks whether the crisis is a sign that finance has vastly outgrown its proper place in the U.S. social and economic system.

This is an excellent question, and Davis deserves great credit for trying to answer it in a serious way. His basic argument is that “twentieth century American society was organized around large corporations, particularly manufacturers, and their way of doing things. It is now increasingly organized around finance—not just particular Wall Street banks, but finance as a model of how things are done…. The consequences of tying the well-being of society to financial markets have become starkly evident.” Even aside from the immediate crisis, in Davis’s view, those consequences are mostly grim.

This is a valuable and novel perspective. Seen from high altitude, things look different. You see features of the economic and social landscape that escape your attention at ground level. Davis explains how many aspects of U.S. society shaped themselves around the traditional large corporation, and especially around manufacturing: a settled career pattern; lifetime employment with a company pension to follow; the phenomenon of the company town; the company as welfare state, almost.

Then, thanks partly to information technology, financial services gradually gained the societal upper hand. The sector made the most money, offered the highest salaries, and attracted the best talent—and prospered in part by breaking down the traditional structures.

Today, Davis argues, an individual’s prospects in work and in retirement are tied less to the fate of one long-lived company than to the vagaries of financial markets. This is a shift as profound as the transition from farming to manufacturing, though as yet much less well understood. One consequence is economic insecurity, a problem writ large in the current crisis (which is itself a product of the hegemony of finance).

The book is too gloomy for my taste, although in this it conforms to the current mood. And Davis expresses a faith in good government that strikes me as naive. But *Managed by the Markets* gave me more food for thought than any of the other books mentioned in this review. In the past 20 years, finance did indeed triumph over other modes of enterprise in the U.S. and elsewhere. This was, as Davis says, a momentous shift. To the victor went the spoils, with far-reaching social and economic consequences. In contemplating the wreckage of the crisis, one should follow Davis’s example, and ask whether this was either inevitable or desirable, and what, if anything, we might learn from it.

Because the crisis is not yet over, many of the lessons must be tentative. But one certain casualty of the meltdown—as nearly all of these books, in their different ways, confirm—is credulous faith in self-regulation. This has been the principle underlying financial regulation in recent years. Financial institutions need to be supervised, went this credo, but what they do is so complicated, and the regulator’s powers necessarily so circumscribed, that firms must be trusted not to do things reckless or stupid enough to put themselves in jeopardy. What we have learned is that, as a group, financial institutions cannot be trusted even that far—and when they put themselves in harm’s way, the rest of us share in the consequences.

The credo was right about the difficulties of regulating effectively. But that will no longer serve as an excuse. Governments will have to try harder. After this crisis, they will no longer be able to stand aside.

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If ever there was a time when leadership was badly needed and sorely tested, it was during the 12 months after October 2008. The financial crash that almost became a catastrophe was a self-inflicted wound. It did not need to happen. There were warnings enough from concerned observers of troubles ahead, but those in positions of power in leading organizations paid no heed until it was too late.

As financial journalist Gillian Tett put it in her book *Fool’s Gold: How the Bold Dream of a Small Tribe at J.P. Morgan Was Corrupted by Wall Street Greed and Unleashed a Catastrophe* (Free Press, 2009; see “A Wealth of Explanations,” by Clive Crook, page 3), the “social silence” around the explosion of derivatives, and around the wealth and influence of the banking cadre, encouraged financiers to regard their activities as detached from the rest of society, until they became “like the inhabitants of Plato’s cave, who could see shadows of outside reality flickering on the walls but rarely encountered that reality themselves.” Nor did they show interest in looking outside. Too many leaders, ensconced in their tall towers, insulated themselves from the world they were supposed to be serving and forgot what they were about.

**Lesson from Our Forefathers**
Financial Chaos may have escaped notice when first published in 2007 because of its unusual title, but this year’s paperback with a new preface by that wise man Russell Ackoff deserves rediscovery at this critical time. “Puritan gift” refers to what the authors describe as the United States’ superb managerial culture as established by the descendants of the country’s early settlers. Those settlers sought to create God’s kingdom on earth in New England in the 17th century. As businessmen they also needed to earn a return on capital but saw no conflict between the two. Profit to them was the means to a greater end.

The Puritan gift, therefore, is that rare ability to create and manage organizations that serve a useful purpose in society. As the authors note, it later inspired the creation of a federal political culture that enabled 13 obscure colonies at the edge of the civilized world to transform themselves, with the passage of time, into a great power. This managerial culture was even successfully transplanted to Japan under the U.S. occupation after World War II and turned a poor country lacking natural resources into the second-richest in the world.

It was, the Hoppers suggest, the United States’ gift to the world until sometime around 1970, when profit-and-loss accounting began to take priority, a time they describe as “the years that the locust ate.” It was then that the cult of the expert and the rise of the so-called professional manager shifted the focus of management to money as the measure that mattered, for self and organization. The elevation of shareholder value as the main criterion of business success mistook the means for the ends, a classic category error for logicians, but a calamitous strategic mistake for leaders. This error was compounded when managerial reward was tied to share value.

The Puritan Gift, this year’s best leadership book, is partly a history of American business, but it is also a lament for the decline of the collegial style of leadership that drove what the authors call the “great engines of growth and prosperity” and that was replaced by the “imperial” rule of the professional CEO in so many companies. It is a reminder of what made the U.S. great and a heartfelt plea for its recall.

The other four books I have selected for this review do not pretend to be as all-encompassing as The Puritan Gift, but they provide insights into important aspects of the leader’s role. The first deals with the need for truth (or candor, as the authors call it) in organizations, something that has been badly missing of late. The second is a primer on helping, a key facet of a good leader’s work. The final two provide vivid and valuable examples of leadership in practice, largely but not wholly drawn from business organizations.

Leadership and Truth
Warren Bennis, Daniel Goleman, and James O’Toole are three of the most influential management thinkers around. Accordingly, Transparency: How Leaders Create a Culture of Candor, their combined take on the key challenges facing business today, has to be taken seriously. The book takes the form of three individual essays, one by each of the main authors.

Bennis looks at the consequences of what Thomas Friedman has described as the flattening of organizations, made possible by new technologies. As information, and with it power, is shared more widely, communication across the organization as well as vertically becomes ever more crucial. Openness and honesty are essential. But being honest in an organization is more difficult than it sounds. People hoard information, indulge in groupthink, tell their bosses only what they think they want to hear, and ignore facts that are staring them in the face. As Bennis points out, “Technologies change. Human nature doesn’t.” The book, he says, is about “the things that have mattered since the new technology was the flint and the longbow — courage, integrity, candor, responsibility.”

In his eloquent and moving essay, O’Toole argues that “speaking truth to power is, perhaps, the oldest of all ethical challenges.” To make his point, he refers the reader to classics of literature — to Sophocles’ Antigone, John Osborne’s Luther, and Robert Bolt’s A Man for All Seasons, the story of Sir Thomas More. O’Toole is at his best in bringing these texts to illuminate our current condition, but he also cites contemporary organizations such as FedEx and Motorola. The prime responsibility of leaders, he argues, is to create “a culture of candor.”
Leadership as Helping

Ed Schein knows a lot about organizations. He has been working with them, advising them, studying them, and, yes, helping them and many of their leaders for decades. Helping: How to Offer, Give, and Receive Help is a small book that is his reflective summary of what works in a helping relationship and how to make it happen. He is uniquely qualified to do this, combining, as he does, a knowledge of sociology, anthropology, and social psychology, as well as long years of teaching executives at the Sloan School of Management at MIT. (Schein was my thesis supervisor 40 years ago, at MIT, and has been a good friend ever since, so I have firsthand experience of his help.)

Helping, Schein points out, takes many forms. He lists 30 helping situations, including a boss giving instructions to a subordinate, a stranger giving traffic directions to a tourist, and a child showing a parent how to play a computer game. Further, he draws heavily on his experience helping his wife cope with breast cancer over 25 years, involving periodic visits to hospitals and home care, with all the different relationships involved.

And help, as Schein points out, is not limited to one-on-one situations. Group effort and teamwork often hinge on the degree to which members perform their roles properly in accomplishing the group’s task: “We do not typically think of an effective team as being a group of people who really know how to help each other…yet that is precisely what good teamwork is — successful reciprocal help,” he writes. Schein also lists 27 synonyms for helping. One way or another, it seems, we are helping or being helped most days of the week. The book is therefore a practical guide to everyday life, as well as an invaluable guide for all those who have some responsibility for others, be they students, subordinates, or clients of one sort or another.

Schein’s main thesis is that all human relationships are a mixture of economics and theater, because they all involve what sociologists call “status positioning” between the parties involved in any social interaction, whether formal or informal. It is human to want to be granted the status and position that we feel we deserve, no matter how low or high that is, and to want to do what is appropriate to the situation and the occasion. If we get it wrong, the relationship doesn’t work. A very simple example: If a child fails to say thank you, a social expectation has not been met and the child is reprimanded. We also intuitively and almost unconsciously measure interactions by how much we have gained or lost, compared to our expectations. Thus, for a helping interaction to work, each party needs to be clear about the role each is playing, and all parties’ expectations of the outcome have to be similar.

After explaining the many pitfalls of helping — why well-intentioned advice is perceived as criticism, how the different social rules in individual cultures create unintended offense, how a tone of voice or form of address can alter a relationship in an instant — Schein offers seven principles and 18 tips, because this is, above all, a book of practical help.

These often sound obvious but, as the examples demonstrate, we often ignore his principles amid the daily course of life, taking for granted relationships and exchanges that may not be what they seem. We get lazy. I found this little book a salutary reminder of too many lapses on my part, while it also explained why some of my well-intentioned attempts to help only led to worsening relationships. Any aspiring leader would do well to review his or her own behavior in the light of this very useful guide.
Leadership by Example
Alan Deutschman is a journalist, which is fortunate for us, the readers, because not only does he write fluently and vividly, but he tells stories, which is what all good journalists do. *Walk the Walk: The #1 Rule for Real Leaders* is a compendium of stories taken from the interviews he has conducted with leaders over the past 20 years, most of them in business but some, equally relevant and revealing, from the worlds of sports and politics. Deutschman’s subjects range from Jeff Bezos of Amazon.com to Barack Obama in the first week of his presidency, from FedEx to the Florida Gators, Nelson Mandela, and the Greensboro Four, whose lunchtime sit-ins in 1960 helped to jump-start the desegregation movement in the United States.

The stories make for compelling reading, particularly because they are not all paens to the individuals profiled. Deutschman is critical of quite a few leaders, including California Governor Arnold Schwarzenegger for talking the talk about energy and the environment but continuing to own a fleet of five Hummers. The fact that, in response to criticism, Schwarzenegger got General Motors to retrofit one of the vehicles to run on hydrogen and another on biofuel was not helpful, suggests Deutschman, because neither fuel is readily available to his constituents. Obama, too, comes in for some mild criticism for not leading enough by example in the very early days, although he is praised for many of his initiatives.

Deutschman uses his stories to make a point, or several points. He starts with the statement that “the most crucial role of a leader is establishing and instilling the one or two values that will be most important for an organization or a movement or a community.” There are always a multitude of values that are important — the hard part is making the trade-offs between them in order to focus on one or two. He castigates Coca-Cola for its list of six goals and seven values, many of which are potentially contradictory: Were “people” more important than “profit,” and where did “integrity” come in the pecking order?

It is, Deutschman says, only when you walk the walk that you reveal the ranking of your values. He describes the response of Martin Luther King Jr. when he was attacked by Roy James, a Nazi sympathizer, in Birmingham, Ala., in 1962. King staggered back under a rain of blows, but dropped his hands and refused to fight back. He turned the other cheek. He walked his walk, lived his teaching, and so demonstrated that others, too, could live by his principles. Deutschman contrasts King’s behavior with stories of corporations and chief executives that have ignored their declared values and principles when it suited them to do so or when they went along with the prevailing customs of their industry, most flagrantly in the case of the airline companies. Deutschman labels them lemmings, those who follow the herd rather than setting their own standards.

Deutschman distills his long list of stories into a series of principles. Although these are obvious, like so much in the literature of leadership, it is the stories that bring them to life. My recommendation would be to read the stories and make a note of the ones that resonated most with your own situation, underline the simple message that they contain, and then resolve to act on it or, as Deutschman would say, to walk your walk.

Inspired by Compassion
There is only one story in C. Julia Huang’s *Charisma and Compassion: Cheng Yen and the Buddhist Tzu Chi Movement*, but it is a remarkable one and a vivid example of Deutschman’s advice to live your values. Venerable Master Cheng Yen, now 72 years old, is an unassuming Taiwanese Buddhist nun who founded a worldwide social welfare movement with more than 10 million devotees in more than 30 countries, 5 million of them in Taiwan itself and the majority of the remainder in the United States. This remarkable organization, the Tzu Chi Foundation, which started as a tiny grassroots women’s charitable group in 1966, now runs three state-of-the-art hospitals in Taiwan, a university, and a television station, as well as an international relief organization that provides money and provisions to those affected by disasters, including the tsunami in Sri Lanka, Hurricane Noel in the Dominican Republic, and floods in Indonesia and the Midwestern United States. Cheng Yen has been nominated for the Nobel Peace Prize and...
is well known as a Buddhist peace activist. She was also identified by *Business Week* as an entrepreneurial star.

Cheng Yen's leadership story started in 1966 when she was visiting a sick friend at a hospital and noticed a pool of blood on the floor. She was told that an Aboriginal woman had miscarried because, after being carried for eight hours by her family to the hospital, she was refused treatment without the NT$8,000 deposit (then about US$400). When Cheng Yen learned that the woman had died, she resolved to start a mission to defray medical costs for the poor. She began by mobilizing the resources of her disciples in her local Buddhist community, asking them to make baby shoes to sell and also to place NT$0.50 (about US$0.025) each morning in a bamboo container before doing the daily grocery shopping. In one month the daily practice of “50 cents to save one human life” had started to spread, and an organization of sorts was born.

It was a heart attack she suffered in 1978 that prompted Cheng Yen to create a hospital so her relief work would continue after her death. The organization therefore had to change; a Buddhist nun, with a following of monastic disciples and laity, whose goal was to collect money to supplement the medical costs of the needy, now had to raise money for a modern hospital and create the necessary organization to build and run it. Task forces, boards of governance, coordination meetings, and organization charts began to appear. Cheng Yen was careful to enroll the time and talents of professionals (not necessarily Buddhists), but she personally chaired all the important committees.

By 1999, the organization had evolved into four basic missions — charity, medical care, education, and culture. The hospitals, university, and relief organizations are set up as regular nonprofits, albeit with some distinguishing features — e.g., the hospital offers free care for Buddhist monastics and the poor, and the university requires a one-year foundation course in “Tzu Chi Humanity.” The whole organization is financed, in addition to the fees it charges, by tiny regular donations from its 10 million devotees, many of whom also work as volunteers. It is overseen by a small headquarters in the original monastic building known as the Abode, where Cheng Yen resides.

I once had the privilege of meeting Cheng Yen. This tiny, wafer-thin woman was not one's image of a charismatic leader, but it was clear from everyone I met that she was greatly revered. It was also plain that she was very much in control of the huge organization she had created. She follows all the precepts of Alan Deutschman, even literally walking the walk with monthly tours around the island of Taiwan to visit her organizations. A well-staffed publicity organization, including the 24-hour television station, keeps the membership attuned to her values and her thinking — vital for the finances of the whole venture. Of course, the challenge for any charismatic leader is, What happens when he or she goes? Cheng Yen has attempted to answer that by institutionalizing her mission, but her personal appeal may be hard to match.

The story of how this frail woman could build such a successful and far-reaching organization is an illustration of just how much a dedicated leader and an inspiring mission can accomplish. It is an apt illustration, albeit from a far different belief system, of *The Puritan Gift*. The book itself is neither slim nor easy to read, written more for students of the Buddhist tradition than for practicing managers, but it is worth the effort in order to understand the true secrets of leadership.

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NA YEAR WHEN THE MARKET VALUE OF THE FORTUNE 500 fell by 37 percent and profits plummeted by 85 percent, conventional strategy books seem beside the point. Keys to guaranteed success? If only there were such a thing. Delivering high performance? Not very likely. Effective strategic planning? JPMorgan Chase & Company’s CEO, Jamie Dimon, said that he didn’t know any company that was following its three-year strategic plan or even its one-year forecast; companies were operating strictly on a month-to-month basis.

Yet if the current crisis affords us one thing, it’s the chance to stand back and reflect on eternal questions of strategy: How should we lead companies in competitive arenas where success is relative, not absolute; where technologies change rapidly; where profits attained in one time period are eroded in the next? What’s the best way to drive companies forward when they have to run faster just to stay in the same place (a phenomenon described by William P. Barnett in last year’s best book on strategy as “Red Queen competition”)?

With these questions in mind, a few new strategy books stand out from the pack. They would be good in any year, but in the present environment they have the virtue of reminding us what it takes to achieve and sustain high performance.

Legal Monopolies
The year’s best strategy book is The Invisible Edge: Taking Your Strategy to the Next Level Using Intellectual Property, by Mark Blaxill and Ralph Eckardt, formerly of Boston Consulting Group and now running their own practice. Intellectual property (IP) often brings to mind patents and lawyers, but this notion is far too limited. In fact, IP is about much more than patents; it also encompasses trademarks, copyrights, and brands, as well as trade secrets, which are aspects of knowledge kept safely away from the eyes of competitors. Seen this way, the entire field of knowledge management is essentially the management of intellectual property. IP isn’t a legal issue but rather a business issue, and, as the authors point out, far too important to leave to the lawyers.

Blaxill and Eckardt maintain that companies with the highest returns tend to have advantages that effectively limit competition. “As we know, when competitors smell profits they come running, so without some
form of protection, those companies will quickly copy the innovations and drive the profits (for both the innovator and themselves) down to nothing.” The authors’ thinking is linked closely to the industry analysis framework pioneered by Harvard Business School professor Michael Porter, which emphasizes the importance of differentiation as a defense against rivals. “Intellectual property,” Blaxill and Eckardt write, “represents small monopolies.”

If the authors left matters there, they would add little to earlier discussions. Much of this terrain was covered by Hiroyuki Itami in Mobilizing Invisible Assets (with Thomas W. Roehl; Harvard University Press, 1987), and the ability to apply knowledge without loss was addressed by Carl Shapiro and Hal R. Varian back in Information Rules: A Strategic Guide to the Network Economy (Harvard Business Press, 1998). The Invisible Edge takes the discussion a step further by analyzing how companies can protect knowledge-based capabilities and retain the benefits for themselves.

The key argument is captured in a refrain that echoes throughout the book: Innovation without protection is corporate philanthropy. All too often, Blaxill and Eckardt argue, managers emphasize innovation without considering how to capture its benefits. They essentially make a unilateral donation to others. The authors explain: “Simply put, when businesses invest in intellectual assets they need to protect the fruits of their investment in the form of intellectual property. Only with the appropriation of ownership rights, and not the creation of the asset itself, does an investment provide competitive advantage.”

Blaxill and Eckardt identify three ways to secure the benefits of IP: control, collaborate, and simplify. Control is the most obvious and easily understood. The success of the Gillette Company (a subsidiary of Procter & Gamble) is often ascribed to its business model: Give away the razors and make money on the blades. This strategy sounds clever, until we realize that it affords little protection from rivals and can hardly explain Gillette’s high performance over so many years. Yes, Gillette has been a relentless innovator, but more importantly, it has protected its innovations with a blizzard of patents. The Fusion and Fusion Power razors, to men-

tion the most current examples, are protected by no fewer than 30 U.S. patents that cover the blade geometry, blade coating, blade guard, pivot mechanism, trimming blade, blade retaining clips, handle design, grip design, system design, cartridge design, cartridge connection, cartridge dispenser, and more. Several of these elements have multiple patents.

Beyond control, companies can capture the benefits of IP through collaboration with others. The Toyota Motor Corporation’s network of suppliers is a widely acknowledged source of competitive edge; less well known is its extensive array of complementary patents and cross-licensing deals that make the idea of imitation daunting to rivals. By dispersing IP among a network of firms with which it collaborates closely, Toyota gains a competitive superiority that is even more difficult for others to overcome. Far from yielding its IP advantage by working with other firms, Toyota cements its IP advantage through its network.

Finally, since complexity adds to unwieldy coordination tasks, the third approach, simplify, emphasizes the benefits of setting industry standards. Here the authors explore the trade-offs between open and closed architectures, showing how open architectures can bestow benefits on companies that set the rules for the interfaces and interdependencies among components in a product design. As a prime example, Blaxill and Eckardt describe IBM’s success with the System/360, which set a standard that other players in the industry were forced to follow. The paradox: Simplicity, far from leading to imitation and irrelevance, can lead to a profitable position of network centrality.

The Invisible Edge is not without shortcomings. The concept of IP can be made so broad as to explain anything that confers advantage, and any success can somehow be attributed to IP. Furthermore, too much space is devoted to Facebook, perhaps an appealing example given its recent success, but surely an atypical example given that it has yet to establish a clear business model able to produce a stream of profits. Yet on balance, Blaxill and Eckardt have produced a fine book that is both insightful and timely. It sets forth a strong intellec-
tual premise but is aimed at a practitioner audience. If anything, the authors’ subtitle sells their book a bit short. *The Invisible Edge* isn’t merely about taking strategy to the next level. Intellectual property is central to the formulation and execution of a successful strategy at any level. And by the end of the book, it is hard to imagine a successful strategy that isn’t solidly backed up by the protection of intellectual property.

**The Importance of What You Do**

What enables companies to develop the innovations that are essential to protect? For that, we turn to a second book, *Dynamic Capabilities and Strategic Management: Organizing for Innovation and Growth*, by David J. Teece, longtime professor at the University of California at Berkeley. The book is not based on original research or empirical findings, and indeed has relatively few examples of specific companies. It is more a collection of articles, written over many years, capturing an evolution in thinking by one of the most accomplished academics in the field of strategic management.

To Teece, “the field of strategic management has been stranded for some time with a framework that implicitly assumes that industry structure (and product market share), mediated by enterprise behavior, determines enterprise performance.” The target of his concern is clear. Michael Porter’s framework, anchored in industrial organization economics, conceives of the firm as a black box and ignores its inner workings, neglecting the vital role of managerial decisions. Unsatisfied with this approach, Teece looks inside the firm and sees it as a set of distinctive capabilities. Companies are notable not for the positions they occupy in an industry landscape, but for the things they actually do: how they learn from their environment, how they combine ideas as they seek to develop new products, how they deliver services to customers, how they develop the talents of employees, and more. Further, these many capabilities differ from company to company because of the deliberate actions of managers. In Teece’s vision, understanding managers and the decisions they make is central to understanding company strategy and performance.

Moreover, in a competitive market economy, capabilities must be constantly reinvented and reapplied if firms are to maintain high performance. Last year’s capabilities are inadequate; new combinations are necessary. Thus, writes Teece, dynamic capabilities form the foundation of competitive advantage, for “the extent to which an enterprise develops and employs superior (nonimitable) dynamic capabilities will determine the nature and amount of intangible assets it will create.”

How do managers renew their firm’s capabilities? First by sensing new opportunities in a shifting landscape of competition and technology, and then by seizing opportunities through managerial initiatives, which in turn lead to reconfiguring capabilities. In all this, the manager plays a central role: Resources do not effortlessly combine and recombine to create new capabilities, but are manipulated by the actions of managers who function as internal entrepreneurs. Teece scolds those who build models of strategy on theoretical foundations that emphasize market structure but overlook the importance of managerial behavior: “The cavalier treatment of entrepreneurship and management in economics stems in part from a failure to understand the importance of managing organizations and the absence of well-developed and well-functioning markets for intangibles and other idiosyncratic assets.”

*Dynamic Capabilities and Strategic Management* is a succinct statement of what has come to be the prevailing academic school of thought in the field of strategy. It’s not hard to see why. In a world where profits erode thanks to increasingly intense competition, or so-called hypercompetition, only the ability to continually generate distinctive capabilities is likely to lead to success. Yet one of the criticisms that can be leveled against *The Invisible Edge* can be raised here, too. Viewed in retrospect, successful companies can always be said to have mastered dynamic capabilities, whereas failed companies can always be said to have been unable to satisfactorily sense, seize, or reconfigure. A second-order question of vital importance is not entirely resolved: What can be done to improve our ability to generate distinctive capabilities, not just once, but over and over — and defy gravity as long as possible?
Strategy Failed

The importance of managerial decisions in strategy brings us to *Innovation Corrupted: The Origins and Legacy of Enron’s Collapse*, by Malcolm S. Salter, the James J. Hill Professor of Business Administration Emeritus at Harvard Business School. On a superficial level, the demise of Enron is a story of dishonesty and reckless behavior, made possible by a lack of internal and external oversight. It’s tempting to blame Enron’s executives for arrogance, greed, and hubris — the same explanations offered for so many Wall Street failures in the past year. And to be sure, Jeffrey Skilling, Andy Fastow, and the late Ken Lay make excellent villains. But Salter, a veteran observer of the world of management, looks below the surface.

The tale of Enron is not a story about them, he writes, but about us. “After decades of studying the practice of management, I am convinced that very few of us who live in the world of competitive product markets and unforgiving capital markets have not encountered the management behavior and business policies that became so toxic at Enron,” he declares. “As self-interested individuals, we are also all susceptible to incentives that improve our economic well-being and tempt personal opportunism….”

Salter’s main interest is in probing the failures of governance at Enron, including the lack of strong board oversight and the dereliction of duty by watchdogs and auditors. Yet the collapse of Enron is also very much a story about strategy. It offers an object lesson in the possibilities and perils of extending success in one industry to others, and how managers respond when their strategies go awry.

Salter wisely notes that the executives involved did not set out to be dishonest or to defraud. In its early years, Enron was innovative and successful by any objective standard. During the early 1990s, Ken Lay and Jeffrey Skilling recognized the trading opportunity in the newly deregulated market for natural gas and devised a business model that was insightful and novel. The key insight was that Enron could play an intermediary role without owning physical assets, namely plants and pipelines. The result was an “asset-light” model for trading natural gas.

Building on this early success, Enron began to look for areas where it could replicate its business model. One Enron executive claimed, “Anything we want to intermediate, we can.” By that logic, the key to Enron’s success was not its knowledge of the gas trading industry or of any other particular industry, but rather a set of capabilities that could be applied in any trading domain — the more fluid and complex the better. As Enron reported in its SEC filings, it believed “skills developed in merchant energy services could yield operating efficiencies for Enron and other participants in the developing bandwidth market.” Finding this argument persuasive, investors and bankers were eager to provide abundant resources to finance Enron’s growth.

Over the next years, Enron made repeated attempts to apply its business model of intermediation in new domains, including electricity trading, broadband trading, electricity generation, and water. Yet every attempt to extend the model into new domains turned out to be a failure. Salter’s conclusion, based on an extensive reading of Enron finances, is that it is doubtful the company earned its cost of capital in any of these new businesses. “In retrospect, both the strategic and economic logic of EES [Enron Energy Services] look highly questionable,” he writes. “Neither fundamental economics nor managerial capabilities could support Skilling’s hopes of extending his energy-based business model down the value chain from sales to utilities, to sales to consumers. Skilling’s big bet on retail energy did not come close to being viable.” Yet with massive incentives to show ever-increasing top-line and bottom-line growth, Enron executives devised questionable, and eventually illegal, ways to maintain an illusion of success. The end was inevitable, and it came swiftly in 2001.

With the benefit of hindsight, it’s easy to say that trading electricity and broadband is fundamentally different from trading natural gas, and that Enron’s business model could not bring value to new industries. But that’s in retrospect. Whether the limitations should have been visible at the time is by no means certain. For corporate strategists, the most difficult questions are, To what extent can existing capabilities be applied in new
domains? How certain should we be before committing resources to move ahead? What are the warning signs that a strategy is not working successfully? And perhaps most troubling, in the event of poor returns, what are the consequences — to the firm and to the manager — of admitting failure?

Toward this end, Salter seeks to distinguish between optimism, which can help performance and have “survival-enhancing effects in business,” and hubris, which has “survival-destroying effects.” But in our daily lives, optimism and hubris are terms we bestow after knowing the outcomes. If a firm performs well, we infer that healthy optimism was present; in the event of failure, we infer hubris. For the strategist, such ex post facto attributions are insufficient. Salter tries to offer a few guidelines: “Certainly, investments in new gas pipelines, gas trading, and even electricity trading — areas in which Enron had operating experience — should be considered intelligent gambles, which are well accepted as normal activities in business. However, investments pursued without relevant operating experience; without deep, specific knowledge on the part of project overseers at corporate headquarters; and without effective risk controls — such as the aforementioned electric power projects and the excursions into water and broadband businesses — crossed the line into the zone of reckless gambles.” Fair enough, but perhaps it still prompts the deeper question, How much relevant experience and how much specific knowledge is needed before we undertake a new strategic initiative? Strategy always involves making commitments in conditions of uncertainty, and risks can never be fully obviated.

One legacy of the Enron disaster is a spate of new rules concerning corporate oversight, governance, and the independence of auditors. Such rules are important, but Salter argues that “the irony of that legacy is that the new rules cannot — by themselves — prevent Enron-style debacles, because they do not address many of the causes of the company’s breakdown.” For a cure, he points us not in the direction of greater regulation, but to principles of responsible leadership found in Philip Selznick’s 1957 classic, Leadership in Administration: A Sociological Interpretation (Row, Peterson), and its emphasis on principle and a sense of ultimate consequence. Perhaps, despite our fondest hopes to engineer superior results with strategic formulas, we are best off reading a 50-year-old leadership book.

Which brings us back to the current crisis. In the financial meltdown, it’s tempting to search for books that promise to create profits amid turbulence or turn adversity into advantage. The three books reviewed here remind us of timeless themes in strategy, yet each offers something new. The Invisible Edge addresses IP as a core issue of differentiation, but emphasizes the need to protect what we create, whether through control, collaboration, or simplification. Dynamic Capabilities reminds us of the need to look within the firm and examine the ways that organizations sense changes, seize opportunities, and reconfigure capabilities, all in response to the actions of managers. And the story of Enron in Innovation Corrupted makes clear how hard it is to know how far we can extend core capabilities and warns us that the impulse for high performance can be perverted without proper oversight. Strategic decisions can never be reduced to exact formulas. They require a sense of balance and perspective to guide choices under uncertainty.

Perhaps the most troubling question is, In the event of poor returns, what are the consequences — to the firm and to the manager — of admitting failure?

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The best books on globalization this year offer insights into three directional trends that are changing the topology of global trade and influence: the deepening of regional ties across emerging markets; the continuing rise of powerful new global players; and, finally, the intractability of risk factors inherent in emerging markets and regional networks, and how best to analyze them. Indeed, as the United States loses its hegemony as the primary engine of global growth, the new drivers of growth deserve intense examination.

New Ties That Bind
Traditionally, the West has myopically viewed globalization from the perspective of how its influence has spread eastward, but globalization also entails the deepening of economic, political, and demographic ties between any two regions, not just between the countries in the Organisation for Economic Co-operation and Development (OECD) and the rest of the world. The simultaneous rise of the economies of China and the Persian Gulf region, for example, is no coincidence. They are intimately connected and contributors to one another’s rising prosperity, as skillfully described in this year’s best book on globalization, Ben Simpfendorfer’s The New Silk Road: How a Rising Arab World Is Turning Away from the West and Rediscovering China (Palgrave Macmillan, 2009).
Simpfendorfer, a Royal Bank of Scotland economist based in Hong Kong, has the unique vantage point of having worked in Damascus and Dubai, as well as in many countries in East Asia. He uses the southern Chinese city of Yiwu as a microcosm for the reopening of the Silk Road. Until recently an out-of-the-way village, Yiwu is a revealing node because its residents make their fortunes selling cheap “made in China” goods to the developing world, not to the U.S. and Europe.

Yiwu's rise as a trade center — its annual trade fair drew 3 million visitors in 2007 — and the repaving of the Silk Road are due in part to the United States’ harsh response to the attacks of September 11, 2001. Difficulties getting U.S. visas forced Arabs to take their business elsewhere at the very time they were amassing capital from high oil prices. The growing demand for oil from India and China provided a natural alternative, and Gulf-Asia trade burgeoned. Saudi Arabia's oil exports to China hit US$31 billion in 2008, and China's exports to the Arab world pulled even with those of the U.S. at about $50 billion, a trend embodied in the sprawling Dragon Mart on Dubai's outskirts (the largest trading hub for Chinese goods outside the Chinese mainland) and Chinese car dealerships in Damascus.

This new Silk Road is not only slicked with oil, it is technologically enhanced through multilingual B2B websites such as Alibaba.com, which have dramatically lowered the costs of trade between the Persian Gulf and China. And it is reinforced by the migration of labor; at least 10,000 Chinese work on building oil terminals in Saudi Arabia on the coast of the Red Sea. This also means that 10,000 potentially idle young Saudi men are not working at oil terminals, something for which China may eventually suffer political blowback. But for now, China's baggage in the Arab world remains very light, unlike the Gulf region's conflicted relationships with the U.S. and other Western nations.

Shifts in trade are usually followed by shifts in finance, and here the evidence Simpfendorfer offers is equally revealing. Arab and Chinese businesses continue to court one another's sovereign wealth funds, looking for capital infusions and building trust, while many U.S. companies and markets look more and more like dry holes. Even before the economic crisis struck in 2008, Gulf countries had begun a gradual shift of foreign exchange reserve holdings to euros, and the European Union is in the final stages of free-trade negotiations with the Gulf Cooperation Council. China has also telegraphed its desire to diversify investments and currency reserves away from the U.S. dollar, in essence signaling a certain ideological unity with its new Arab partners.

The political ties on the new Silk Road are evident in the frequent reciprocal summits to which Saudi Arabia's King Abdullah and China's President Hu Jintao bring planes full of executives eager to sign deals. Oil trading, foreign investment, arms deals, and the rhetoric of diplomatic alignment are all part of the mutual reinforcing.

In using the Silk Road as a metaphor, Simpfendorfer reminds us that the trade networks between the Middle East and Asia date back centuries, illustrating how globalization is not an entirely new phenomenon either. He also points out that the Silk Road was in fact plural; it was many routes in multiple directions. Much like the new world order, it had no single center.

The New Silk Road is a window into the deepening commercial and cultural ties that define globalization outside the Western domain. English may be the necessary global language, but it’s insufficient to understand and capitalize on today's multidirectional globalization. Simpfendorfer’s first-person observations plausibly sketch the many individual threads that will likely be woven together to create tomorrow’s geopolitical alliances.

India’s Bid for Economic Leadership

It is remarkable how in the past few years the analytical perspective on globalization has shifted from Westernization to the rise of two Asian giants. The literature on Asian globalization has also matured; the overly simplistic language of “Chindia” is gone, with each nation now being treated as a confident competitor in its own right — and it is India that has gained ground, at least in publishing-volume terms, over the past year.

After several years of almost outlandishly unrealis-
tic portraits of India’s rise that glossed over its crumbling infrastructure, fractious politics, and impoverished masses, in Nandan Nilekani’s *Imagining India: The Idea of a Renewed Nation*, we finally have an inspiring yet balanced account that takes these challenges head on. Nilekani, the hero of Thomas Friedman’s *The World Is Flat: A Brief History of the Twenty-first Century* (Farrar, Straus and Giroux, 2005), a former co-chairman of IT giant Infosys and now a cabinet minister in the Indian government, knows that for India to achieve global respectability, the success of firms like Infosys must spread to companies throughout India. As a CEO and statesman, he elegantly glides between national history, entrepreneurial autobiography, trend forecasting, and public policy — taking the attitude that “what’s good for India is good for Infosys” and focusing on how to improve access for all Indians to health, education, jobs, and infrastructure. (Also see Nilekani’s “India’s Demographic Moment,” *s+b*, Autumn 2009.)

Although so much of the talk about the Indian market opportunity revolves around the “bottom of the pyramid,” Nilekani wants to shrink the pyramid’s base by growing the middle class while also ensuring a dignified and sustainable life for those who are worse off. The twin foundations of this strategy are IT and the promotion of English-language education above all else. Exuding a confidence that rivals China’s pronouncements about its economic future, Nilekani states, “We can, first of all, reasonably assume that within a few years we should be able to have ubiquitous connectivity to cover every Indian home, hamlet and town.” Such ambition is coupled with a detailed strategy for harnessing an emerging demographic dividend created through the combination of economic growth and a boom in the number of working-age people. This will create tremendous business opportunities for foreign firms and Indian entrepreneurs alike, particularly in products such as low-cost computers and PDAs.

To realize this vision, Nilekani says, universities must be stripped of ideological dogmas and produce more experts in health care and alternative energy; informal and non-unionized labor must be empowered as service distributors; and more states must follow the business-friendly model of the state of Andhra Pradesh, which features India’s best highway system and emphasizes competition instead of subsidies.

The recent electoral victory of the Congress Party–led alliance ought to mean greater support for and confidence in India’s ability to establish more such zones of innovation. The India of the past, where entrepreneurs were considered “devious capitalists” and computers referred to as “job-eating machines,” is beginning to look like the U.S. of the 1990s, whereas Nilekani’s India of electronic ID cards and e-governance is proving to be a progressive experiment worthy of investors’ attention. After the book’s publication, Nilekani left Infosys to become chairman of the Unique Identification Authority of India, a $6 billion smart-card project aimed at providing Indians with personal ID cards.

Where Nilekani champions India as a market destination, Nirmalya Kumar, Pradippta K. Mohapatra, and Suj Chandrasekhar focus on the nation’s growing status as a player in the global arena and the effect this will have on the next phase of globalization. Their book, *India’s Global Powerhouses: How They Are Taking On the World*, offers a deeper look at the way India’s major multinationals are pursuing globalization on their own terms. Kumar, a marketing professor at the London Business School, and his coauthors argue that these firms, which include the Birla and Tata groups, can leverage vast assets and tolerate high debt-to-equity ratios to complete international deals, such as Tata Steel’s 2006 acquisition of Anglo-Dutch steelmaker Corus and the 2007 merger that created ArcelorMittal, the world’s leading steelmaker.

Based on extensive interviews with deal makers in major Indian firms, the authors’ case for eventually seeing more Indian companies (as opposed to Chinese companies) among the top multinationals rests on arguments similar to those of Nilekani — namely that Indians’ command of the English language and comfort with diverse, multietnic workforces result in relatively frictionless outbound acquisitions. The fact that outbound investment surpassed inbound investment for the first time in 2006, a major turning point for “Brand
India,” lends credence to this reasoning. Further, they expect to see Indian companies competing globally in a greater variety of industries. Indeed, this well-selected set of cases, which includes Hindalco’s global aluminum empire and Suzlon’s international windpower supply chain, demonstrates that India has already branched out beyond IT and manufacturing, with biotech and other sectors certainly on the near horizon.

Both *Imagining India* and *Global Powerhouses* see India as a rival to China in the global arena, competitive thanks to its younger demographic profile, English proficiency, and higher-value finished goods. The fact that Indian companies have proven that they can pull off multibillion-dollar acquisitions overseas gives them an additional advantage. Many questions remain, however: Will India’s publicly traded companies be allowed to hold high levels of debt? What will happen when the country’s dominant family-owned model is confronted with international management practices — and scandals on the magnitude of Ramalinga Raju’s billion-dollar fraud at Satyam Computer Services? India has reached well beyond its borders, but a turbulent global economy means that there is no guarantee of smooth progress.

**Risk and Reward in New Markets**

Major Western firms, such as Coca-Cola and GM, have reported greater profits overseas than at home for almost a decade now, and global expansion into faster-growing economies seems essential to all First World companies that can afford it. But even though emerging and frontier markets, such as Sri Lanka and Romania, are undoubtedly the next major globalization story, they are volatile and unpredictable. Yet few companies take political risk seriously. Most either rely on experts and “insider advice” or simply ignore the subject as too complex and intangible to integrate with day-to-day strategy.

In this sense, Ian Bremmer and Preston Keat’s *The Fat Tail: The Power of Political Knowledge for Strategic Investing* is long overdue. The authors, both at the prestigious consulting firm Eurasia Group, draw on years of top-level advisory experience to provide the first accessible and rigorous treatment of political risk for business executives. “Fat tail” is a statistical term that refers to a bump at the end of a distribution curve where there is added risk, but the likelihood that a particular event will occur “appears so catastrophically damaging, unlikely to happen, and difficult to predict, that many of us choose to simply ignore it. Until it happens.” The authors’ main point: Black swans, as Nassim Nicholas Taleb calls them, can be political as well as financial.

Such is the volume’s tone as it takes the reader through a wide variety of events that wreaked havoc in capital markets, including the Russian ruble devaluation of 1998, the 2003 PDVSA oil strikes in Venezuela, the 9/11 terrorist attacks, and the passage of the U.S. Sarbanes-Oxley legislation in 2002. Indeed, as shown by the critical firestorm that forced state-owned China National Offshore Oil Company to withdraw its bid to acquire Unocal in the U.S. in 2005, local political sensitivities impact investments everywhere, even in the United States.

Bremmer and Keat turn the amorphous notion of risk into a catalog of former secretary of defense Donald Rumsfeld’s oft-quoted “known unknowns” and “unknown unknowns,” covering warfare, energy supply disruptions, terrorist attacks, coups and civil wars, expropriation and breaches of contract, currency controls and defaults, global warming and demographics, and, of course, corruption. Along the way they offer sensible resilience mechanisms to prepare for such events (e.g., risk mapping, data collection, scenario analysis), ensure continued operations (e.g., personnel location), and hedge strategic bets (e.g., joint ventures).

But lest we begin to believe that political risk is fully manageable, Robert P. Smith’s *Riches among the Ruins: Adventures in the Dark Corners of the Global Economy* (written with Peter Zheutlin) provides a stark reminder that “frontier markets” can be a euphemism for the chaotic Third World. Smith, the founder and managing director of the Turan Corporation, which specializes in emerging-market sovereign debt, takes us on a tour of places where he says you have to “hold on to your wallet and your life”: El Salvador, Guatemala, Iraq, Nigeria, Russia, Turkey, and Vietnam.

In the 1970s and ’80s, before dollarization and
Bloomberg terminals, sovereign debt–trading middlemen like Smith relied on chutzpah and instinct to determine bond prices and find trusted money changers. For such financial swashbucklers, understanding people was as important as, if not more important than, understanding markets. Clearly, improvisation was Smith’s greatest gift: He carried large volumes of cash internationally, set up local holding companies to collect debts, and sent alias-named proxy lawyers to scout for contacts and information — anything to get the job done.

Even as the sovereign debt trade has grown into a $1.7 trillion industry conducted by multinational banks and investment firms, Smith’s characters are alive and well today, just dressed better and using BlackBerrys instead of rotary-dial telephones. After reading this book, one wonders how Arab and Chinese investors described by Simpfendorfer will treat the frontier markets of Uzbekistan, Afghanistan, and Pakistan that lie between them on the New Silk Road.

Smith witnessed every incident in *The Fat Tail* economy, from arbitrary currency controls to coups to expropriations. His implicit reminder is that emerging markets are a long-term investment. It’s a reminder that would have been worth hearing in late 2008, when the worldwide flight of capital to safety caused foreign direct investment in the developing world to plummet. Many analysts threw the baby out with the bathwater, and the U.S. became the default market of choice even at near zero percent yield on Treasury securities. But, in fact, by April 2009, the *Wall Street Journal* was already reporting a surge in emerging market indexes. Growth had not gone negative, and foreign exchange reserves and high savings rates combined to restore stability.

This isn’t to say that recoveries are permanent. Smith’s description of Russia in 1997, when he and others bought in heavily on the assumption that Russia was too big to fail, inadvertently reminds us of Russia in 2007: too dependent on high oil prices and with weak regulations and enforcement. Just over a decade ago, the Russian stock market lost 75 percent of its value; in 2009, it has lost at least 60 percent. Emerging markets can always submerge again.

In the evolution from Smith’s boots-on-the-ground adventures to Bremmer and Keat’s more detached, methodological approach, an interesting mutual appreciation appears: Smith thinks that his adventurous tactics are no longer relevant in a world of real-time, electronic information, yet Bremmer and Keat argue that local political knowledge is still essential to staying ahead of the curve. In other words, paying more attention to data is not enough — good instincts are also essential to figuring out all the unknowns.

**A Warning to Established Players**

An unmistakable conclusion that we share with all the books featured in this essay is the assertion that the U.S. has lost its status as the preeminent driver of globalization. Thus, we predict that two trends will typify the next phase of globalization: First, stronger regionalism in terms of deepening economic integration in areas such as East Asia, Latin America, and the Arab world will be driven by local powers such as China, Brazil, and Saudi Arabia. Second, the global playing field for firms, capital, and strategies will become much more level as Western companies lose the automatic edge they once held in trust and credibility. (See “Capturing the Asian Opportunity,” by Andrew Cainey, Suvojoy Sengupta, and Steven Veldhoen, *s+b*, Winter 2009.) Companies in emerging and frontier markets may not become global leaders in their own right, but they will surely be powerful players in their own domains and beyond.

**The global playing field for firms, capital, and strategies will become more level as Western companies lose the automatic edge they once held in trust and credibility.**
today. Radical change is upon us, the systems we knew and believed in have fallen apart, and whether we are corporate leaders or employees, fund managers or investors, laid off or relatively secure, the uncertainty and contradiction evoked in the quote are probably familiar feelings.

Indeed, it is hard to imagine a more dispiriting subject to write about than business management during this year of business failures, plunging corporate profits, and public distrust. Some writers have handled this challenge by dissecting the failures and extracting their lessons; others hold up the shining examples of survivors or find fixes for our problems.

The authors of the books in this review are of the latter variety. They perceive, as did Dickens, that even in the midst of the chaos and despair brought about by radical change, there is always the hope for something better and the possibility that new opportunities are hidden in the upheaval and destruction.

I agree, and it is more than optimism that steered me in this direction; it is the conviction that the prevailing ethos of management has reached a tipping point. After more than a decade of making the case for integrating corporate profitability and social value in a new sustainable business model, I’m finding that people are ready for a conversation about the purpose of business, the definition of business success, and the time frame for measuring that success. In fact, the conversation is already taking place, in corporate settings and business schools, among leaders, employees — and business writers. The books I have chosen see the potential, enhanced by the destruction around us, for making daring changes in the way we manage our companies and in the way we look at the role of business.

Here’s Your Burning Platform
In this year’s best management book, The Upside of the Downturn: Ten Management Strategies to Prevail in the Recession and Thrive in the Aftermath, Geoff Colvin, sen-
ior editor-at-large for Fortune, argues that tough times are the right time to make big changes in an organization. “Step one in every consultant’s advice on how to lead change is ‘Create a burning platform,’” writes Colvin. Well, here it is, he adds. The “platform really is burning. If ever people were ready to be led toward new ways of doing things, they are now.”

Doing things differently will be crucial to business survival in this century, Colvin asserts, pointing out that the world has already begun to change in “several big, long-lasting ways.” These changes include a reduction in consumption to the historic norm as consumers pay off mountainous debts, and a cultural shift toward thrift. “Forces in today’s society are already being adapted to clothe thrift in modern dress,” he writes. “One is environmentalism; the mantra of ‘reduce, reuse, recycle’ is a formula for saving money, while wasting resources is not only personally profligate, it also harms everyone by hurting the planet.” The dual anxieties of health-care costs and impending retirement for a large segment of the population will also fuel this shift, and Colvin sees traumatized consumers and investors being risk averse for a long time to come.

Government will play a much larger role in the new world order, especially the regulatory sector, says Colvin. A few years after Hurricane Katrina, when “government looked incompetent while business rode to the rescue,” the opposite view has taken hold: “Business screwed up, government steps in.”

Whether you subscribe to that view or not, Colvin thinks that the faster and more effectively managers respond to these changes, the more likely their companies are to do well. What do managers need to do? To begin with, says Colvin, managers must avoid falling back on outdated models in their rush to respond to today’s stresses. For example, they should not “obey ancient instincts from the industrial age” and treat workers as expendable. The best companies and leaders will take a more enlightened view, says Colvin, using the opportunities created by the downturn “to begin practices they should have been using, to improve the quality of their people, to increase employees’ loyalty and motivation, to build the culture.”

One of those not-to-be-missed opportunities is getting compensation and incentives right. It’s time to jettison pay programs that encourage executives to take high risks by limiting the negative consequences. Colvin suggests following the example of companies like Deere & Company, where incentives are based on economic profit, which includes capital costs, and bonuses are paid out over four years and subject to cancellation if performance is not up to par, a system that Deere CEO Robert Lane told Colvin he likes because “it encourages long-term thinking.”

Which brings up another opportunity afforded by the downturn: freeing managers from providing earnings guidance to the investment community. Colvin describes earnings guidance as a game that has developed so gradually that “those in its midst may have trouble seeing how insane it has become.” (As one of the developers of the Aspen Institute’s 2007 Aspen Principles, a series of signatory statements promoting long-term management and value creation strategies, I agree. The principles advocate that companies stop providing short-term financial guidance altogether.) Companies such as GlaxoSmithKline and Unilever have suspended guidance, and Colvin suggests that the time is right for others to follow suit: “While suddenly ceasing guidance in good times may alarm investors, they understand that in a historic recession even the best companies can’t predict results a year down the road.”

Colvin also sees this as a good time for managers to consider environmental initiatives, despite the conventional view that going green is a luxury a company can ill afford in a downturn. He argues that “seeing the business from an environmental perspective can be a great idea in distressed times because it can reveal cost saving opportunities that had previously been invisible.”

The author also recommends going against the conventional practice of immediately cutting spending in R&D and advertising during down times, citing research showing that companies that continued to invest in these areas during the 1990–91 recession retained their competitive advantage and became top market performers, undercutting many managers’ assertions that the stock market would “punish them for
spending more and cutting less than competitors during a recession.” (See “Profits Down, Spending Steady: The Global Innovation 1000,” by Barry Jaruzelski and Kevin Dehoff, s+b, Winter 2009.) Successful companies, says Colvin, “play offense, not defense, during a recession…. [They] see opportunities to build advantages when their competitors have in effect taken themselves out of the game.”

Colvin’s overarching prescription is to make changes now, while employees are looking for something that will move them beyond anxiety or despair. Citing research on military leadership during crises, he notes that people respond better when their leaders help them see stressful events as challenges from which they can learn and benefit. “A crisis is the optimal moment for personal growth,” writes Colvin. “It is also the best time for a company’s own personal growth, the improvement of its culture.”

Managers Can Be Leaders

Although managers can help lead change, they cannot bring it about alone, according to Henry Mintzberg in his new book, simply called Managing. The Cleghorn Professor of Management Studies at McGill University and author of more than 15 books, Mintzberg continues to promote his belief that management is not merely a science encompassed in a set of analytical skills taught in a classroom, but also an art that depends on imagination and creative insight, and a craft that is learned on the job through apprenticeship, mentorship, and direct experience.

Mintzberg researched this book by spending a day each with 29 managers and watching them work. The managers were employed in a variety of industries, government, and nonprofit organizations, in settings as disparate as offices, refugee camps, and symphony orchestras. Watching these managers balance thinking and acting, as well as dealing with multiple activities, frequent interruptions, and a pace that never let up, inspired Mintzberg to propose both a model and a set of concrete skills for managerial effectiveness.

The model seeks to erase the arbitrary line between managers and leaders — “we should be seeing managers as leaders and leadership as management practiced well,” he writes. He thinks of both functions in terms of the “communityship” inherent in them. The effective manager, he says, is one who “leverages the natural propensity of people to cooperate in communities.”

Management books often make me feel like I should head back to boot camp. But reading Managing, which is written in a breezy and accessible style, I found my own managerial insecurities melting away. Mintzberg reminds us that most managers are prey to events and demands they do not control, and that a wide range of styles can work well for a boss. Balance is the key: keeping up with the hectic pace of business yet making time for reflection; driving change yet maintaining stability; leading and collaborating; leavening analysis with judgment.

Further, all these skills must function within the larger context of a worldly mind-set — an attitude that Mintzberg distinguishes from the common mandate for companies to be global. “All managers function on a set of edges between their own world and those of other people,” he writes. “To be worldly means to get over these edges from time to time, into those worlds — other cultures, other organizations, other functions in their own organization, above all the thinking of other people — so as to understand their own world more deeply.”

For Mintzberg, management is not confined to the inner workings of an organization, but takes into account the larger landscape in which a business functions. “Is there an economist prepared to argue that social decisions have no economic consequences?” he asks. “Not likely: everything costs something. Well, then, can any economist argue that there are economic decisions that have no social consequences? And what happens when managers ignore them, beyond remaining within the limits of the law?”

Mintzberg finds the answer in a quote from Russian author Aleksandr Solzhenitsyn, who, describing his life under a Communist regime, said: “A society that is based on the letter of the law and never reaches any higher is taking very scarce advantage of the high level of human possibilities. The letter of the law is too cold and formal to have a beneficial effect on society. Whenever the tissue of life is woven of legalistic relations, there is
an atmosphere of moral mediocrity, paralyzing man’s noblest impulses.”

How do we develop managers who can lead businesses in a more sustainable direction? Mintzberg, a reliable critic of business schools, challenges them to go beyond the usual fare of courses organized by business functions — marketing, finance, and accounting. That approach “amounts to a focus on analysis,” he says. Instead of “calculating managers,” he wants managers “who can deal with the calculated chaos of managing — its art and craft — which highlights the importance of reflection, worldliness, collaboration and action.”

The bottom line for Mintzberg is instilling a sense of commitment in managers — commitment “to the job, the people, and the purpose, to be sure, but also to the organization, and beyond that, in a responsible way, to related communities in society.” Amen.

That same sense of commitment lies at the heart of John C. Bogle’s Enough: True Measures of Money, Business, and Life. The germ for this book and its title come from a story about writers Kurt Vonnegut and Joseph Heller. At a party given by a billionaire hedge fund manager, Vonnegut informs Heller that their host makes more money in a single day than Heller has earned in total from his wildly popular novel Catch-22. Heller responds, “Yes, but I have something he will never have...enough.”

The founder of the Vanguard Group and the creator of the first index fund, Bogle examines how leaders and managers in the financial-services industry — and business generally — have failed both investors and society and discusses what can be done to set things right. Bogle could be the poster boy for Mintzberg’s effective manager and leader. The tenacity of his message and his business model of long-term investing, especially in an era when the so-called smart money ran in the opposite direction, makes him a real hero of mine.

In a world where measurement has replaced judgment, where investing subtracts value from society rather than adds it, and where our financial system challenges corporations to “produce earnings growth that is, in truth, unsustainable,” Bogle would have us adopt some new rules for leaders. Some of these rules echo what Mintzberg says about the managerial traits he has identified as vital, such as commitment, caring, and the ability to leverage people’s desire to work together in community.

Unsurprisingly, trust is also high on Bogle’s list of leadership and organizational attributes. He quotes economist and investor Henry Kaufman, who asserted in On Money and Markets: A Wall Street Memoir, “Trust is the cornerstone of most relationships in life. Financial institutions and markets must rest on a foundation of trust as well.” Bogle points to a survey of fund investors that found that almost three-quarters of the respondents did not trust the fund industry. “And how can fund investors muster any faith whatsoever in the funds that now exist,” he asks, “when more than half of their managers won’t put their own money on the line?”

Bogle points to the emphasis on measurement at the expense of judgment as another factor that is eroding trust. “Business organizations must learn that ‘not everything that can be counted counts,’” he points out, quoting Albert Einstein. “Yet today we rely too heavily on counting and not enough on trusting. It is time — well past time in fact — to strike a healthier balance between the two.” For Bogle, it all comes down to a lack of leadership, as he illustrates through discussions of excessive CEO compensation, the lack of accountability and principles for ethical conduct, short-term speculation at the expense of long-term investment and growth, and more.

The final section of the book, labeled “Life,” calls for a return to 18th-century values. Before rolling our collective eyes, let’s remember that the 18th century was the age of reason, and of Thomas Paine, Adam Smith, and Benjamin Franklin, whom Bogle calls the “paradigm of the eighteenth-century man.” It is Franklin the entrepreneur whom Bogle holds up as a contrast to those in our own century — a man motivated not by a desire for personal profit but by the joy of creating and of exercising his ingenuity and energy. Indeed, according to Bogle, the leaders of the 18th century were able to “implant in society a reliance on reason, a passion for social reform, and the belief that moral authority is
integral to the successful functioning of education and religion as well as to commerce and finance.” He would like to see more such leaders today.

The End Isn’t Near
Given the current conditions, and the rise of new economic powers such as China and India, I can’t help worrying that there might not be time to build the kind of managers and organizations that Mintzberg and Bogle envision, especially here in the United States. So I was surprised in an airport bookstore when I found The Next 100 Years: A Forecast for the 21st Century and read: “The history of the U.S. will be the history of the 21st century.” Its author, George Friedman, is founder and CEO of Stratfor (Strategic Forecasting Inc.), a global intelligence-gathering company. A former academic whose geopolitical and economic analysis has been used by the Pentagon and Wall Street, Friedman makes a contrarian yet convincing case for seeing the future for the U.S. as a glass half full.

Friedman bases his case on what he cites as “the single most important fact of the twenty-first century: the end of the population explosion.” He argues that “the entire global system has been built since 1750 on the expectation of continually expanding populations. More workers, more consumers, more soldiers — this was always the expectation. In the twenty-first century, however, that will cease to be true.” Because advanced industrial countries will be losing population at a dramatic rate by 2050, and birthrates are slowing in most underdeveloped countries, Friedman believes that population growth will stabilize, and by the end of the century, technology and immigration will be the key ingredients of economic competitiveness and power. And in both of these areas, the U.S. has the advantage.

Assessing China’s current “economic dynamism” as unsustainable, Friedman sees other economic powers emerging at mid-century: Japan, Turkey, and Poland — for a number of fascinating and convincing reasons that I cannot do justice to in this review. But looming over them all, in Friedman’s assessment, is the U.S. powerhouse, welcomed as falling birthrates fuel an international labor shortage by 2020, the power of the computer (whose programming language is English), and U.S. military might (especially its sea power), Friedman foresees a United States that will continue to hold center stage as the century progresses.

To help make the case, the author offers a long summary of all the times over the past several centuries that the popular geopolitical forecast turned out to be dead wrong. The message: The future is never set in stone. So stay on your toes, fellow travelers. There is time to influence events in business and in life. All the more reason to use this opportunity to build the institutions — and develop the managers — that will help us create a mature society that we all want to live in.

By the end of the century, says George Friedman, technology and immigration will be the key ingredients of economic competitiveness and power.

Judith F. Samuelson is the founder and executive director of the Aspen Institute Business and Society Program, which employs research and dialogue among business leaders to build a sustainable global society. She was previously with the Ford Foundation and helped launch its Corporate Involvement Initiative.
It’s been true for a few years that consumers have a more commanding voice in the marketing arena; the difference now, as Twitter’s popularity reveals, is that more and more individual consumers are using their voices — what was once a trickle produced by the most tech-savvy consumers is now a rushing stream. The injection of the consumer’s voice into brand messaging may be the most explosive change for digital-age marketers, but it’s the ongoing contribution of all those voices that is actually making the impact.

Now that major marketers and individual consumers use the same tools to produce and distribute messages, it’s as though the open source movement has spread into the business of brand communications. Take Dunkin’ Donuts: It spends millions of dollars on marketing, but there are also dozens of fan-produced Dunkin’ Donuts pages on Facebook, and the vast majority of the 5,000 YouTube videos tagged “Dunkin’ Donuts” were uploaded by consumers. The cross-pollination of corporate marketing and consumer messaging has reached a point of irreversibility. The three best marketing books of the year address this reordered world of messaging and marketing.

**All Aflutter about Twitter**

It is virtually, pardon the pun, impossible to ignore the mental space that Twitter has taken up in the last year within the marketing and communications industries. The service is still relatively small — *InformationWeek* reported that Twitter attracted about 23 million hits versus Facebook’s 122 million hits in June 2009 — but its hold on the marketing imagination is profound. Twitter is word-of-mouth moving at hyper-speed. Each person (or corporation) using the free service can post text-sized messages (tweets) and “follow” the messages of other users. Users resend the most interesting of the messages to their followers, creating a constant spreading of tweets in a very public forum in real time. This makes Twitter
an incredibly dynamic platform for communicating with and distributing messages to people with high levels of interest in a brand, as well as a potent platform for gathering consumer intelligence.

Not surprisingly, about two dozen books solely devoted to the two-year-old service are already for sale on Amazon. Thus, in picking books to review, the task became not whether a Twitter book should make the list, but which book to include. Some of the authors are marketing wonders, but many are charlatans who simply consider their role as Twitter pundits to be a get-rich-quick opportunity.

Shel Israel (Twitter user name: @shelisrael) doesn’t fit into that latter category. Israel is the coauthor, with tech evangelist Robert Scoble (@scobleizer), of Naked Conversations: How Blogs Are Changing the Way Businesses Talk with Consumers (Wiley, 2006), and he admits his own early skepticism about the service. In Twitterville: How Businesses Can Thrive in the New Global Neighborhoods, he writes: “When a friend talked me into trying Twitter in August 2007, I found myself reluctant…. I already had all the contacts I thought I needed and was having plenty of interaction with people through traditional and social media tools.” Israel’s experience, replete with early fits and starts, makes his insights into Twitter all the more credible, as does his research method — about three-quarters of the book comes from people who are active users. He also knows how to tell a good story, in this case of how a teenager named Jack Dorsey created an online municipal dispatch service in 2000, which provided the seed that became Twitter.

For the marketer, Twitterville really shines in its case studies, which show how the service can provide a distinct, and easily achievable, competitive advantage. One case study concerns the JetBlue Airways Corporation (@jetblue), which in 2008 discovered the service’s utility as both a mechanism to determine consumer needs and a promotional tool. When airline employees who used Twitter noticed messages complaining about the difficulty in booking flights between San Francisco and Austin, Tex., for the SXSW Interactive conference, a key gathering of technology executives, the airline quickly added flights, and then, completing the virtuous circle, posted messages on Twitter to market the added seats. Meanwhile, the other airline with many flights to Austin — American Airlines (@aaairwaves) — missed the money-making opportunity, simply because Twitter wasn’t yet on its corporate radar.

Israel’s understanding of Twitter culture is best displayed in an anecdote about how Procter & Gamble Company, usually among the most savvy advertisers, got Twitter wrong. P&G partnered with Feeding America to sell Tide T-shirts to fight hunger, but it failed to understand how the Twitter community worked when it attempted to piggyback on the reputation of 150 of the most followed users of the service. P&G asked these influencers to send tweets to their followers, who would presumably re-tweet the message to their followers, and so on. However, the goodwill of the Twitterati didn’t extend to hawking T-shirts promoting Tide, especially since Procter & Gamble didn’t disclose how much of the purchase price was actually going toward feeding people. In the end, P&G sold only 2,000 T-shirts and the initiative was considered, by the Twitter community at least, to have bombed.

No one knows if Twitter will become a permanent fixture in the social networking scene or turn out to be a fad, but in terms of this book’s relevance, it’s a moot point. Reading Twitterville should be a priority for anyone who is serious about marketing today, because the online conversation is just beginning to evolve, and dismissing the phenomenon exemplified by Twitter would be a major mistake.

Giving the Store Away, but Making a Profit

It might be tempting to dismiss Free: The Future of a Radical Price, except that its author is Chris Anderson, editor-in-chief of Wired and author of The Long Tail: Why the Future of Business Is Selling Less of More (Hyperion, 2006), whose title became one of the big catchphrases of Web 2.0. Anderson’s controversial new theory is that sooner or later, every business will have to deal with Free (a term that he uses as a capitalized noun, somewhat precisely, throughout the book) and start giving away goods and services that in a pre-digital era
Not that “free” is easy. After quoting Sheryl Crow about how “sad” she feels that some people think music should be free, Anderson says the most heretical thing that it’s possible to say to a capitalist. “Spot the fallacy?” he asks. “It’s that the only way to measure value is with money.” Anderson argues that Crow doesn’t recognize that when her songs are stolen, she is really participating in two of the Internet’s “nonmonetary economies” — economies measured in attention and reputation, which can be used to make money. Thus, he espouses the idea that “free” is the essential first step toward revenue, particularly in digital businesses, where the marginal costs of reproducing and distributing products are essentially zero.

If that doesn’t sound heretical exactly, it does sound wrong-headed — maybe even crazy. And yet, there is no denying that “free” can work marvelously. Look at Google, which gives away e-mail, blogging software, maps, and even a software suite that rivals Microsoft Office, and thrives from this exposure. (As for Crow, Anderson points out that the exposure stemming from free music leads to revenue from merchandising, concerts, and licensing; just ask the surviving members of the Grateful Dead.)

Of course, the trouble with “free,” especially in these data-driven times, when return on investment should be an exact science, is that the profit it generates is indirect. The ties between Google’s sponsored links program and revenue could not be more direct, but how does a traditional businessperson rationalize the company’s decision to simply give away software? Anderson’s caustic answer to those still attached to 20th-century ideas of pricing: “You have to think creatively about how to convert the reputation and attention you can get from Free into cash…. This is just like everything else in life — the only mystery is why people blame Free for their own poverty of imagination and intolerance for possible failure.”

Yes, there is certainly stridency here, so much so that you have to wonder if there’s a subconscious connection between Anderson’s passion for his theory and his lifting of some of the book’s passages from Wikipedia, the free online encyclopedia; the plagiarism was uncovered by the Virginia Quarterly Review in the weeks leading up to the book’s publication. (Anderson called his lapse “sloppy” and “inexcusable.”)

For marketers, the most salient points of Free aren’t really pricing related, even if that’s what the book’s title implies. The concept of “free” is important for two reasons. First, it has already been embraced by younger demographics. We’re now dealing with an entire generation that, through file sharing, free Facebook accounts, and free Google Docs software, views “free” not just as the way things are, but as the way they should be. Given marketers’ endless pursuit of youth culture, they’d better get their arms around this. Second, although Anderson doesn’t quite come out and say it this way, “free” can be seen as the new mass media. As it becomes harder and harder to engage consumers, perhaps the easiest way to create interest is to give away a stripped-down version of a product. The trick then becomes how to get those people who upload pictures to the basic Flickr service or play a free version of an online game to buy the premium version of the same product. It’s a strategy that Anderson references throughout the book as a “freemium.”

Anderson also tracks the “free” phenomenon into the analog world, where it has existed at least as long as there have been “buy one, get one free” deals. His most detailed example is Ryanair, which sells airline tickets for unbelievably low prices (a recent visit to its website showed flights from Liverpool to Stockholm for only £4). But the Irish airline charges for nearly everything else, from flying with an infant to renting a car through its website. It is even considering charging passengers to use the restroom and pondering whether letting people gamble on board would allow it to give away tickets on some flights. One thing Anderson doesn’t point out is that “free,” like any other marketing program, can have a substantial cost in a company’s reputation with customers if it’s done poorly. In a series of interviews on the U.K.-based website BrandRepublic.com, for instance, Ryanair customers called its plan to charge for toilets “absolutely horrific.” Still, as the tens of millions of people who have flown Ryanair can attest, “free” has an obvious allure — and so does Anderson’s book.
When the Brand Bubble Pops

If this year’s best marketing book, The Brand Bubble: The Looming Crisis in Brand Value and How to Avoid It, weren’t so well-documented, it would be easy to accuse the book’s authors of trading in scary headlines — burst bubbles are all the rage these days. But John Gerzema and Ed Lebar, executives at the global ad agency Young & Rubicam, have plenty of data; they oversee the agency’s BrandAsset Valuator, an analytic database that currently encompasses 600,000 customers, 30,000 brands, 48 countries, and 240 studies.

Here’s what they found: Wall Street has been bidding up the value of brands to such an extent that “brands account for approximately 30% of the market capitalization of the S&P 500” and “have doubled in their contribution to shareholder value over the last 30 years.” The problem, as the authors explain, is that while Wall Street has been bidding brands up, consumers have been bidding them down. The public’s faith in most brands has been eroded by decades of over-the-top ad claims and the fact that the shelves are overcrowded with undifferentiated products. Kudos to Gerzema and Lebar for also making the link between the accelerating decline in brand credibility and the mass adoption of the Internet, which, in effect, open sourced people’s ability to research brands and communicate about them.

Among the loads of evidence The Brand Bubble presents to substantiate consumers’ lack of interest is data from Forrester Research Inc. revealing that the percentage of people who say they “buy products because of their ads” fell from 29 percent to 13 percent in the four-year period between 2002 and 2006, and the percentage of those who agreed with the phrase “companies generally tell the truth in ads” declined from 13 percent to 6 percent at the same time — and those figures came after decades of slower erosion in the power of brands.

It wasn’t only the authors’ command of the facts that struck me when reading The Brand Bubble. It was a gut reaction that Gerzema and Lebar, having examined all the many facts at their disposal, have articulated something profound about the sorry state of brand equity. Decades ago, as they put it, “simple awareness was enough to create product differentiation, especially when brands were small and regional.” Now, “barring meaningful distinction, brands enter into a transactional relationship with consumers, letting price dictate the purchase decision.” As brand equity erodes, the specter of commoditization rises.

Just as insightful is their discussion of why certain brands continue to resonate with consumers. What is it about Apple, Nike, Virgin, Whole Foods, and Google? They’ve all achieved “energized differentiation,” according to the authors. These brands don’t rest on their laurels, they are continually looking forward and staying in motion:

We used to think of positioning as a hole in the ground in which to plant a brand. Water it with repetitive messages and GRPs [gross rating points] until it bears the fruit of brand equity. But the marketplace is in constant motion. Competitors, consumers and culture are constantly reordering brand meaning…. It’s no longer effective to stake a claim to a perpetual territory and defend it through repetition. Instead, the best way for a brand to own a position is to be constantly dynamic with it.

Eureka! The power of Apple’s iPod isn’t in the core invention, but in how the brand is constantly evolving. And the decades-old skin-care brand Dove is still relevant because it “elevated itself from a memorable product attribute focus (‘one-quarter cleansing cream’) to engaging in a cultural conversation with consumers (reframing social perceptions of beauty).”

Fortunately, the book spends much more time on how to capture energized differentiation — starting with an energy audit to assess a brand’s current position — than it does on explaining why the brand bubble exists in the first place. Although much of it is too detailed to describe here, the book’s advice for reenergizing moribund brands is as well reasoned as its big ideas. (Also see Gerzema and Lebar’s “The Trouble with...
In March 2007, at a lunch with MySpace.com founders Tom Anderson and Chris DeWolfe, I personally delivered what I thought would be some troubling news to them. MySpace had just lost the United Nations School in New York City. My son, who was then a junior at that high school, had been part of a cohort that spent a huge amount of time on the social network. But recently, the entire junior and senior class had engaged in a mass defection to Facebook. What’s more, I had collected anecdotal information that this was happening all over the country.

I thought I knew what the MySpacers would reply. They first would acknowledge the trend and assure me they were on top of the situation. Then they would outline the myriad ways they were improving their site to make it more compelling for people like my son and his friends. But to my surprise, they shrugged off the migration...
tion, sniffing that it was an isolated phenomenon among privileged East Coast schools, and changed the subject to movie tie-ins with the MySpace parent company, Rupert Murdoch’s News Corporation. They were also eager to discuss their plans to start a record label. No matter how hard I tried, they would not engage in a discussion of the competition between MySpace and other social networking sites.

I was baffled. Two years later, Facebook — growing at a breakneck pace — passed the flatlining MySpace in number of users. And I was still baffled by Anderson and DeWolfe’s continued insouciance. But Julia Angwin’s relentlessly researched and compellingly rendered Stealing MySpace: The Battle to Control the Most Popular Website in America explains everything. The founders of MySpace had unwittingly put their company in jeopardy because they, like a surprising number of other technology pioneers, did not understand the nature of what they had created.

Stealing MySpace, along with the other two books that stand out in the business and technology field this year, would seem at first glance to grapple with a particular aspect of the digital revolution: the empowering effect of technologies that allow people to communicate, connect, and express themselves on a global scale via the Internet. This effect alters the relationship between companies and customers, which, in turn, lays waste to traditional business models, while giving rise to new ones.

The direction of technology itself is rather predictable. We know that it insistently drives forward, powered by the rocket fuel of Moore’s Law and a seemingly bottomless reservoir of innovation and brainpower, most often generated by fuzzy-cheeked geeks wearing sneakers. But those people actually running businesses — not just the enterprises that introduce disruptive elements, but all of the enterprises subsequently affected, too — must navigate new minefields. How well they do this depends not just on wizardry and gadgetry, but also on more elusive factors like personality, culture, and a knack for knowing what to do when the lawyers come calling.

One might assume that a book about MySpace, which seems to deserve the “most popular Website” description in the subtitle (more than 70 million users by April 2008), would be a chronicle of far-seeing visionaries who first identified, then successfully harnessed, the need that young people had to organize their social networks online. That’s not the case. Nor is Stealing MySpace a deep analysis of what the company means to the millions of people who create messy pages, swap songs, and intertemporately post party pictures on its site. Angwin is less concerned with cultural effects than she is with spinning an old-fashioned investigative boardroom drama.

MySpace’s DNA did not spring from the gene pool that yielded great Internet companies like Amazon, eBay, and Google, but from a fetid digital backwater called eUniverse, based in an industrial park near the Los Angeles airport. The idea sprang from two “cubicle-dwelling marketing executives with no technical prowess or revolutionary ideas,” Angwin writes. As a teenager, Anderson had flirted with the dark-hat hacker underground; he was mentored by Bill Landreth, a well-known malefactor who parlayed a criminal record into a book contract with Microsoft Press. Later, he got involved in a website focusing on Asian pornography. DeWolfe was a frat-boy finance major who took a marketing job during the first dot-com boom. His activities at eUniverse involved creating e-mail spam and spyware; his big success was getting people to download a patriotic cursor (to show support for Operation Desert Storm) that secretly loaded software to snoop on their online activities. EUniverse, writes Angwin, was “the trailer park of the Internet.”

When DeWolfe launched MySpace as an eUniverse property in 2003, it seemed like yet another exercise in bottom-feeding: It was a bald attempt to clone what was then the Net’s hottest newcomer, a social networking site called Friendster. Despite massive buzz and investments from top venture-capital firms, Friendster flamed out while MySpace thrived.

How did two SoCal hustlers beat out a Silicon Valley first mover? One factor was MySpace’s malleability — of all the social networks, MySpace has been the one to allow users the most latitude. This tapped into the teenage urge to personalize a corner of the Internet, even though it wound up making a user’s space the dig-
MySpace tried to buy Facebook. Twice. Both times, the asking price was way too high for MySpace’s taste.

The speed of MySpace’s relative decline has apparently blindsided even the gimlet-eyed Angwin. In her epilogue, she writes, “MySpace remains the dominant social networking website…. Facebook is just half the size.” But those were last year’s numbers. In May 2009, MySpace’s problems became sufficiently dire for Murdoch to fire DeWolfe and shuffle Anderson off to a quiet office. The new CEO is Owen Van Natta, formerly an executive at Facebook.

There is a bigger picture behind the phenomenon that drew millions to MySpace: the shift that suddenly opened a new channel of communication, part personal and part broadcasting. Because it is as easy for friends to share copyrighted digital files as it is to tweet their activities, the Net is also a disruptive (to say the least) distribution system. Cheap, or free, software tools allow people to add their own creative spin to existing books, movies, and songs — though the activity is currently illegal. But when a technological reset dramatically alters the landscape, shouldn’t legal boundaries be altered as well? And if so, which ones? And how?

These are complicated questions, and no one has deconstructed them more vividly than law professor Lawrence Lessig. (See “Lawrence Lessig: The Thought Leader Interview,” by Lawrence M. Fisher, s+b, Second Quarter 2002.) Over the past decade, Lessig has been writing what may now be seen as a multivolume work on how the Web interacts — and often clashes — with the law. (His pioneering role in the field has earned him the sobriquet “the Elvis of cyberlaw.”) Taken as a whole, Lessig’s body of work is sort of a digital War and Peace, a mix of gleeful optimism at the new creative opportunities the technology provides and grim hand-wringing at how entrenched forces can stifle those prospects with restrictive regulations and software. The latest tome is Remix: Making Art and Commerce Thrive in the Hybrid Economy.

Make no mistake, Lessig is an advocate. He tilts his lance at the entrenched forces that have fortified and extended the laws of copyright. The Recording Industry
Association of America probably considers him a bigger threat than peer-to-peer file-sharing programs like LimeWire. Lessig has even abandoned his armchair to found an organization, Creative Commons, that allows artists to register their work in a way that circumvents the restrictive default copyright status, allowing more freedom to those who would share the works or include portions of them in their own creations. But he also bristles at attempts to make him into a radical who wants to eliminate copyright entirely.

In *Remix*, Lessig draws a sweeping picture of the rise, fall, and budding revival of participatory culture. He starts with the 19th century; before radio and phonographs, people actually made their own music! (John Philip Sousa, Lessig tells us, argued for copyright protection, but also worried that the advent of “infernal machines” would mean the end of the amateur music maker.) Lessig describes that participatory process as “read write” (RW) culture. During the 20th century, however, popular media such as radio, vinyl recording disks, and movies generated an overwhelming bias toward “read only” (RO) culture, where highly commercialized information, art, and entertainment was delivered to passive listeners and viewers who had little ability — and less inclination — to create their own work.

In the 21st century, the era of digital files and the Internet, it’s much easier for amateurs to tweak existing works, mix them into new creations, or hatch new work. And for the first time, instant global distribution is accessible to all. (With a $200 Flip video camera and YouTube, millions have the power that only a few decades ago was reserved for a very few broadcasters.) As you would expect, we’re seeing a triumphant return to RW culture, and Lessig trots out a number of examples, including a Pittsburgh medical technician who mines hundreds of songs to create avant-garde remixes (called mash-ups) and communities making *Star Wars* sequels with Lego blocks.

Unfortunately, says Lessig, our current laws regard the creation of such works as a criminal act. We were toward the culture around us. We can only make them ‘pirates.’” Even when the law doesn’t prohibit remixing (such as under fair use provisions), some copyright holders have installed digital locks on their works to deny even legal reuse of the material.

Having established these points in the first half of *Remix*, Lessig tries something more ambitious in the second part of the book: laying the groundwork for an entirely new copyright system through which artists and businesses might make money in an era of thriving, and legal, RW culture. Although not necessarily convincing, his arguments are fascinating.

Lessig delineates two current economies on the Internet: a traditional commercial one in which the dominant form of exchange is money, and a “sharing economy,” in which labor and goods are traded for love, altruism, patriotism, the fun of participation…anything, it seems, but money. Amazon belongs to the first economy, and Wikipedia is a prime example of the second. Lessig envisions the emergence of “an increasingly important third economy: one that builds upon both the sharing and commercial economies, one that adds value to each. This third type — the hybrid — will dominate the architecture for commerce on the Web…. The hybrid is either a commercial entity that aims to leverage value from a sharing economy, or it is a sharing economy that builds a commercial entity to better support its sharing aims. Either way, the hybrid links two simpler, or purer, economies, and produces something from the link.”

In other words, the Third Way is definitely for-profit but not rapaciously so, and such businesses are synced to the sharing spirit of the Web. It sounds terrific, but the examples Lessig gives aren’t exactly overwhelming. There’s Red Hat, the company promoting the open source Linux (struggling in recent years). He also cites Flickr, a photo-sharing site (now owned by Yahoo) that takes in revenues from premium memberships. He talks about Craigslist, a service that was firmly planted in the sharing economy but is still struggling to figure out how far it wants to venture into the commercial realm. (Oddly, Lessig doesn’t dwell on the examples of social networking sites like Facebook or MySpace, which appear to fit his hybrid prototype, with their for-profit
exploitation of user content.)

Lessig returns to firmer ground in his conclusions, where once again he urges a rethinking of copyright laws. His closing argument, while spirited, has an elegiac tone. After four books attacking copyright laws, Lessig is on to his next crusade — fighting the influence of campaign money on legislators. Throughout the copyright controversy, Lessig’s arguments have ultimately rested on common sense and logic. As far as legislators are concerned, both of these are almost always trumped by special interest money. Case in point: a copyright regimen that has criminalized an entire generation.

One of the most prominent examples of 21st-century RW culture owes less to remixing than to simple expression. That would be blogging. This doesn’t surprise Scott Rosenberg, a former newspaper writer turned online journalist and blogger. “Communication,” he writes in Say Everything: How Blogging Began, What It’s Becoming, and Why It Matters, “was not some bell or whistle. It was the whole point of the Web, the defining trait of the new medium — like motion in movies, or sound in radio, or narrow columns of text in newspapers.” (Emphasis author’s.) But although blogging in one sense seems a fairly predictable outgrowth of a medium that allows instant publication to a global audience, the path toward ubiquity is more colorful than one might expect. And despite all the attention paid to blogging, in Rosenberg’s hands, the implications turn out to be more profound than most people, even bloggers, have recognized to date.

Say Everything is not only a delightful history of the form but a surprisingly broad account that touches on a number of major issues of the past decade, quietly making a case that blogs now play an indispensable role. This for a format that was once (and in many quarters, still is) dismissed as the time-wasting, unreliable, and often antisocial rantings of “guys in pajamas.” The book begins with descriptions of how blogging provided some of the best, and certainly the timeliest, accounts of the September 11, 2001, attacks. We revisit the role blogging played in unseating a senator, dislodging an anchorman, and giving a face to the Iraqi population in the days before the U.S. invasion began. In every case, the digital soapbox provided by a blog empowered an unheralded citizen (or group of citizens) to affect the world. Bloggers may not have elected the current U.S. president, but every candidate in the 2008 election certainly regarded bloggers as a constituency to be taken seriously.

Rosenberg’s approach is to tell the stories of the sto-
bling to accommodate the more recent rumblings that the era of the blog is passing, rendered moot by the shorter, more insistent postings on Twitter. But he’s got the numbers to prove that although some of the buzz is gone from blogging, more people than ever are actually doing it. And, he writes, this is a very good thing:

Hostile observers have always painted bloggers as barbarians thronging before the gates of a besieged culture…. But it has always been a fantasy. Bloggers are writers who sit down to type character after character, word upon word, day by day, steadily constructing, out of their fragments, little edifices of memory and public record. In this activity they resemble not the hordes outside the gates of a city, but rather the studious scribes within.

Ironically, Rosenberg’s extended encomium of blogging also turns out to be an implicit defense of another allegedly endangered form: the book. Only by such an extended and well-organized presentation can Rosenberg both give us a comprehensive account of blogging and successfully argue for its importance. The pages of Say Everything provide not only an expertly curated burst of information, but also entertainment for several evenings. The book provides thought and provocation. It illuminates the deep economic challenges of the Internet. And, as is the case with blog postings, Rosenberg speaks with the clarity and wit of an authentic voice — even after the highly filtered, far-from-real-time processing of a major publisher. That’s why I think Say Everything is the best technology-related business book of the year.

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Richard Reeves, John Stuart Mill: Victorian Firebrand (Overlook, 2008)
T.J. Stiles, The First Tycoon: The Epic Life of Cornelius Vanderbilt (Knopf, 2009)
Alice Schroeder, The Snowball: Warren Buffett and the Business of Life (Bantam, 2008)

Unconventional Lives
by James O’Toole

This year’s best business biographies — volumes on the lives of John Stuart Mill, Cornelius Vanderbilt, and Warren Buffett — weigh in at a hefty eight and a half pounds, in toto. Fortunately, the varied and numerous rewards that readers will find in these three engaging books more than compensate for the risk of hernia and the obvious toll on the eyes of poring over 2,295 densely printed pages. Each of these biographies is meticulously researched,
masterfully written, and replete with insights relevant to the lives of contemporary businesspeople. Because each book delights in a different way, the judgment of which of the three is best depends more on the reader than this reviewer.

Champion of Liberty

My personal preference among the three is British journalist Richard Reeves’s critical biography, *John Stuart Mill: Victorian Firebrand*. Mill (1806–1873) was a true polymath — political economist, philosopher, polemicist, parliamentarian, and a prime mover in the 19th-century reform movement that transformed Britain from an aristocracy into a modern liberal democracy.

Homeschooled by his father, noted scholar James Mill (with an occasional assist from Mill family benefactor Jeremy Bentham), the young Mill mastered Latin at age 6 and Greek two years later, and was writing a treatise on political economy by his 12th year. Philosopher Isaiah Berlin deemed Mill’s education “an appalling success.” Indeed, years of nothing but study, coupled with immersion in Bentham’s coldly rational utilitarian philosophy (in which happiness is reckoned by a “felicity calculus”), turned Mill into the heartless thinking machine dubbed “Arithmetic Mill” by Thomas Carlyle. Eventually, a childhood and adolescence of all work and no play exacted a heavy toll on Mill: In his 20s, he suffered what he termed a severe “crisis,” or psychological breakdown.

What finally snapped him out of it was love, sweet love. Mill fell madly, adoringly, and enduringly in love with Harriet Taylor, who would become his lifelong soul mate and collaborator. Unfortunately, there was also a Mr. Taylor, whose existence would ordinarily have constituted a formidable obstacle in Victorian England, where divorces were rare and extramarital affairs were viewed as several degrees worse than scandalous. Undaunted, Mill and the Taylors entered into a kind of *ménage à trois* in which she had, in effect, two husbands. Taylor would retreat to his gentleman’s club when Mill visited. Things went on that way for two decades until John Taylor died, thus clearing the way for a happily-ever-after marriage between the persistent lovebirds.

Mill controversially claimed that Harriet Taylor was not only his inspiration for, but basically the coauthor of, some of his most important works. Reeves documents how she greatly influenced the conclusions in Mill’s multivolume *Political Economy*, often cited as the 19th century’s leading work on the subject, and in the classic *On Liberty*, the book on which his lasting reputation is based. Without a doubt, Harriet disabused Mill of his beliefs in doctrinaire utilitarianism: He would henceforth add a touch of poetry to Bentham’s mathematics.

Mill was, and still is, known as the “champion of liberty.” His “harm principle” is commonly used to define the proper limit of governmental authority over the individual: “The only purpose for which power can be rightfully exercised over any member of a civilised community, against his will, is to prevent harm to others. His own good, either physical or moral, is not a sufficient warrant.” He applied this principle to countless controversial domestic issues, including state control of prostitution, gambling, and the sale of alcohol. His conclusion will resonate with contemporary libertarians: *Any activity should be legal to the extent it doesn’t harm others.* (He also applied his principles to foreign policy, reasoning that a country has a duty to try to prevent a powerful nation from attacking a weak neighbor but, conversely, no nation has the right to intervene in the domestic affairs of another, even if the intent is to rid that country of a tyrannical leader.)

Unlike modern libertarians, Mill believed the prime threat to freedom in a democratic country is not the nanny state but what he called the “despotism of society.” He argued that in countries like Britain and the U.S., the tyranny of the majority and the intolerance of powerful religious and ideological minorities constitute the real threats to individual liberty. For example, by questioning the patriotism of dissenters, vocal minorities can effectively kill off healthy discussion of policy alternatives. Because Mill believed that no one is ever either all right or all wrong, he saw the function of liberty as guaranteeing that all perspectives could be aired so that the inevitable shortcomings of any policy were more likely to be identified.

What most distinguishes Mill from other great
minds of his time is that, in hindsight, he turns out to have been on the right side of history with respect to almost every significant issue he addressed. He was a forceful advocate of free markets and private business ownership (at the same time that Karl Marx was reaching quite the opposite conclusions). Mill's favorite cause was universal, compulsory education, and he was the first to advocate a school financing system that we would call vouchers. He was a leader of the anti-slavery movement and one of the most vocal British advocates of the Union cause during the American Civil War. He fought for free speech and the right of assembly (Speakers' Corner in London's Hyde Park is his lasting legacy). He was an early environmentalist, calling for a tax on coal to reduce its consumption and for accessible green spaces. He advocated birth control, fought for Irish home rule, sought a ban on smoking in public places, and legislated to prevent fraud in voting. Most significantly, he worked ceaselessly to expand the right to vote to the British middle and working classes — and not just to those of the male persuasion.

Not surprisingly, almost all of Mill's views were unpopular among the landed aristocrats who dominated British politics at the time, but none of his causes irked them more than his ceaseless advocacy of the rights of women. If British feminism can be said to have had many mothers (foremost of whom was Harriet Taylor), it had only one father: J.S. Mill. His uncompromising stand that women were entitled to full equality in political affairs, in workplaces, and in the home was viewed as dangerously extremist in an era when women were denied the right to vote and hold office, could work only as domestic servants, and were viewed as mere legal wards of their husbands (in most cases, wives couldn't own property in their own names). Mill's views about women were the logical extension of his fundamental philosophical belief that the good life consists of continuous learning and growth. He argued that people develop character through their habits — for example, through participating in political, community, and workplace activities. Because women were manifestly denied the opportunity for such development, he felt they were denied their basic humanity.

Moreover, he believed that everyone should be able to develop that character in whatever manner each saw fit. He didn't believe the state could, or should, make people happy; instead, he argued that the proper role of government was to free people from the involuntary constraints that prevented those who wished to do so from developing their character to the fullest. At the same time, Mill balanced his libertarianism with an equal measure of communitarian responsibility. He believed that we are not isolated islands unto ourselves but, instead, members of moral communities. For example, to build character among the working classes, he believed that established companies ultimately should be owned by their employees (he advocated that a financing system similar to today's employee stock ownership plans be put in place after the deaths of founding entrepreneurs). He reasoned that workers who were also owners would behave more responsibly and productively than if they were mere hired hands, to the benefit of society and the economy. They would have the opportunity to grow as responsible individuals and, as a fillip, the inequities of capitalism (which led Marx to call for revolution) would be addressed through peaceful reform as every man and woman became a capitalist.

Mill loved entrepreneurs, those independent and unconventional sorts who defied the tyranny of custom through experimentation and innovation. Because he saw them as the drivers of social and economic progress, he did not want to hamper their motivation by taxing their income. By the same token, he disapproved of those who lived on "unearned" income, namely the idle inheritors of great wealth. In his view, trust fund babies were unproductive members of society who had no incentive to improve their character. He thus advocated high inheritance taxes as the fairest, and least economically inefficient, means of generating state revenue.

Reeves concludes that Mill was the "voice and conscience" of the greatest era of progress and wealth creation in history. Yet it is nearly impossible to pigeonhole him in ideological terms. Was he liberal or conservative, Democratic Socialist or free marketer? Mill's admirable many-sidedness, his belief that no one is ever wholly right or wrong, and his tolerance of those who advocated the most unpopular of causes made him simply and admirably "the champion of liberty."

The Original Robber Baron
As portrayed in T.J. Stiles's The First Tycoon: The Epic Life of Cornelius Vanderbilt (1794–1877), Vanderbilt might, at first blush, appear to be the type of custom-breaking entrepreneur Mill admired. A self-made man without formal education, Vanderbilt was universally afforded the high naval title "commodore" because of the great steamship line he created from scratch (starting
with the single sailboat that he skippered himself to ferry passengers between Staten Island and Manhattan). In the process, he transformed shipping through consolidation and price cutting, creating a modern industry in which his giant ships dominated the lucrative North Atlantic route and transported men from New York to work in the goldfields of California in the 1850s.

As the Civil War drew to a close and Vanderbilt entered the eighth decade of his life, he daringly sold all his ships to concentrate his efforts on the emerging railroad industry. In a spectacular second act, Vanderbilt transformed the railway business as thoroughly as he had transformed shipping. In a short span of time, he consolidated numerous small trunk lines competing for business between Chicago and New York into one mammoth, integrated network that would become the New York Central Railroad.

When he died, Stiles says, Vanderbilt was probably the richest man in the U.S., with a fortune that represented US$1 out of every $20 in circulation in the country, including cash and demand deposits (to put that in perspective, Bill Gates's wealth in 2008 represented $1 out of every $138). But Stiles has much more in mind in this weighty tome than simply documenting the rise of one fabulously wealthy man. The real subject of his book is the transformation of the U.S. economy from the solo-owner, small-scale capitalism of the 18th century to the modern age of giant, publicly held corporations. To make that potentially arid topic appealing, Stiles casts Vanderbilt as the personification of that historical shift, beginning his career as the sole owner of a business in a simple industry characterized by many small competitors and ending it as the major investor in a huge company that, for all intents and purposes, is a monopoly.

The book succeeds brilliantly as a history of the rise of American corporate capitalism. Stiles has great command of the ins and outs of national economics and corporate finance. He explains in clear language and authoritative detail just how the U.S. came to have a national currency of “greenbacks,” and what caused the panic of 1873 and the decade-long depression that ensued (conditions in that sorry era sound enough like our current economic crisis to give a reader the willies). Similarly, he draws on internal corporate records to document exactly when, why, and how this or that corporate takeover (or bankruptcy) occurred. As history, this is great stuff.

Where the book doesn’t quite work is in regard to Vanderbilt the man. In my reading, he is an imperfect instrument for the complex tune Stiles wishes him to play. The Commodore, for all his wealth and power, was a rather one-dimensional character. Doubtless, he was a financial genius, and one of the first to understand how the game of publicly trading corporate shares could be made to work in favor of investors (he was the first to “corner the market” for a major stock). That said, had the book focused solely on the life of Vanderbilt, it would have been repetitious at 200 pages. Thus, what we get is a paragraph or two about the man, followed by long, fascinating asides on the culture, politics, or economy of his time. Occasionally we lose sight of Vanderbilt altogether, which isn’t necessarily a bad thing because the historical context Stiles describes is usually more interesting than the life of the man.

Vanderbilt was a ruthless competitor: opportunistic, aggressive, greedy, egotistic, monomaniacal, and vindictive. He believed in winning at all costs, and some of the methods he employed — for example, stock-price manipulation — were unethical even by the lax standards of his era and would be outright illegal today. He was a hypocrite to boot, a professed anti-monopolist who sought to create legal monopolies. Notwithstanding those manifest faults, Stiles bends over backward to offer a balanced portrait, trying to get us to at least respect his protagonist, even if we can’t like him. The main line of defense is that, for all his faults, Vanderbilt lived by “a strict code of honor in business.” In fact, he does seem to have been as “good as his word” — invariably a point of pride with even the most patently unethical entrepreneurs. Perhaps there is honor among thieves, but that doesn’t make thieves honorable.

Although Vanderbilt was the first to earn the sobriquet “robber baron,” he was not the least admirable of the group. That distinction goes to his archenemies, James Fisk and Jay Gould, owners of the Erie Railway,
who had the pleasure of being among the few of Vanderbilt’s competitors ever to best him in a deal. In one tricky maneuver described by Stiles,

[Fisk and Gould] secretly purchased some six thousand head of livestock in the West. Then...they announced they were cutting the Erie’s livestock rates to $1 per car. The move forced the [New York] Central to follow suit, as they knew it would. Shortly afterward, Gould and Fisk boasted to the press that they had shipped their livestock over the Central at these absurd rates, reaping a huge profit at the Commodore’s expense. The Central instantly raised rates to $40 per car.

Vanderbilt predictably went ballistic, but he didn’t pull back from competition. Many of his investments turned out to be significant losses, and he took them like “the man” he prided himself in being. But he won many more than he lost and, in the end, “proved himself an expert at using the stock market to concentrate capital or avenge himself on his enemies.” Alas, there was little else about his life that merits reporting. Aside from betting on cards and horses (he helped establish harness racing as a sport), he had no discernible interests. He was an absent, perhaps even abusive, husband and father (he had his first wife briefly committed to an asylum so he would be free to dally with their servant girl); uninvolved in politics (except to lobby both parties in the service of his investments); unmoved by culture (his “only notable work of art was a bust of himself”); and lacking in almost any philanthropic inclinations (the exception being his funding of Vanderbilt University, which was far less expensive than one might expect).

In Vanderbilt’s own eyes, he was the avatar of the Jacksonian promise: the hardworking, nearly illiterate son of a poor boatman who, by dint of his own efforts, created wealth far in excess of anything produced by the privileged sons of America’s decadent landed gentry. Paradoxically, he then spent the last years of his life trying to create his own dynasty, leaving the bulk of his investments in the hands of his eldest son in hopes that the Vanderbilts would carry on for generations like the aristocratic Astors and Schuylers. He should have read Mill. Within two generations, his ne’er-do-well descendants had pretty well dissipated the fortune and lost their social standing. His remaining monument is Manhattan’s Grand Central Station, the terminus of his New York Central Railroad. If you crane your neck, you can make out his statue way up there over the entrance, staring out over Park Avenue South.

The Oracle of Omaha

There is no greater contemporary “conjurer in the financial ether” than Warren Buffett, the subject of Alice Schroeder’s surprisingly objective biography, The Snowball: Warren Buffett and the Business of Life. The book is not what I (or, apparently, Buffett) expected from an “approved” bio written with the full cooperation of the subject. Far from being an adoring hagiography, this is as thorough and honest an account of Buffett’s life and career as one could ask for. Significantly, showing Buffett’s warts ultimately serves more to humanize the man than diminish the mogul.

It is hard to imagine there is anything new to write about the eccentric and humble multibillionaire who, as we know, drives his own SUV, carries his own luggage, lives in the same modest house in Omaha where he has resided for decades, works out of an unadorned office with minuscule staffing, dresses like an engineering undergrad, and subsists on a diet of burgers and cherry Coke. And we all know about his oracular annual letter to Berkshire Hathaway shareholders, in which he offers sage investment advice and commonsense insight into the arcana of corporate finance, and the related stadium-filling shareholder meetings at which he and longtime sidekick and business partner Charlie Munger proclaim on all manner of subjects economical and commercial (some 30,000 Berkshire Hathaway stock owners showed up in 2007).

But it turns out we really didn’t know him all that well. Schroeder offers us a nuanced portrait of a surprisingly complex and insecure man whose life is full of paradoxes and contradictions, one who somehow com-
bines a career quite similar to Vanderbilt’s with a philosophy much like Mill’s. The son of an abusive mother and an ideologically wacko father who represented Iowa in the U.S. Congress, Buffett grew up socially awkward, needy, and nerdy. Immature and maladjusted throughout his prolonged adolescence, he was a chronic pilferer of golf balls from the local Sears store.

His saving grace was that he was a born entrepreneur. In high school he started a pinball machine business and had accumulated on the order of 50 grand (in today’s dollars) by age 16. He drifted until graduate school, when he came under the influence of two Columbia University B-school profs, David Dodd and Benjamin Graham, who taught him the virtue of low-risk investing, primarily by scrounging for “cigar butts” (obscure stocks trading below the liquidated value of a company’s assets). He quickly learned how to do the research and analysis required to find these gems in the rough, developing the mind of an actuary in his ability to calculate risks and future returns. It was all about the math of compounding (that’s the “snowball” effect of the title). Buffett was quick to appreciate that it is far better in the long term to reinvest than to spend. Where others saw a dollar today, he saw a hundred in 20 years. Hence his legendary tightfistedness (when a millionaire friend once asked to borrow a dime for a phone call and Buffett found only a quarter in his pocket, he went looking for change).

Buffett developed his own simple formula for what to do with a cigar butt once he owned it: Take out all the cash and raise prices. That worked well for a while, until it became harder to find undervalued companies. It was then that Munger — a charmingly crotchety lawyer — stepped in to wean Buffett off bargain hunting and teach him to appreciate the value of “great businesses.” Once Buffett added the art of qualitative assessment to his prodigious quantitative skills, the rest was history. Buffett and Munger’s holding company, Berkshire Hathaway, would become a major shareholder or outright owner of companies with such perennially strong brands as Coca-Cola, Fruit of the Loom, Geico, Gillette, and See’s. By 1974, Buffett was on his way to fortune and fame, thanks to being featured in “Adam Smith’s” best-seller, Supermoney, as not only a genius investor, but an honest one too — almost a saint among the demons of Wall Street.

Buffett’s reputation would grow with his wealth. In 1987, the value of a Berkshire share had increased 23 percent per annum for 23 years (an initial investment of $1,000 was worth $1.1 million — that’s snowball!). In the process, his name became synonymous with careful, prudent, and patient investing and with traits such as openness, integrity, and extreme honesty. It was all about the basics, starting with living by Dale Carnegie’s sensible rules for success (“Ask questions instead of giving direct orders”) and Buffett’s own home-spun common sense (“Be long-term greedy, not short-term greedy”). Although his personal expertise was limited to finance, Buffett appreciated the value of strong enterprise management and knew great leaders when he saw them (then he invested in their companies and left them in place to run their businesses without interference). He was ahead of his time in calling for independent boards, the expensing of stock options, and an end to excessive executive compensation and, especially, unconscionable perks. Most famously, he was a constant critic of Wall Street and often cautioned managers not to take expedient actions to satisfy the short-term thinking of stock analysts.

That’s the story we all know — the official line that “media-shy” Buffett turns out to have promulgated and carefully managed for decades. But Schroeder shows us another, more complicated and factual, version of the legend that is Buffett, one in sharp contrast to his “aw-shucks” image.

How to explain the dichotomy between Buffett figuratively sitting on the front porch with a glass of lemonade, telling folksy stories and teaching through homilies, and his long history of sophisticated business feats? What was he doing as interim chairman of an investment bank while talking and writing about Wall Street as a gang of con men, sharpies, and cheats?

As a major investor in and a board member at
Salomon Brothers, Buffett was the logical choice to step in to chair that firm in the early 1990s when the head of its government bond business was caught making illegal trades that netted about $4 million in profits. That act would cost Salomon some $800 million in “lost business, fines, penalties and legal fees.” The episode nearly led to Salomon’s demise as its reputation was blown to smithereens. In great detail, Schroeder documents how Buffett’s actions — most notably his willingness to capitalize on his own reputation for integrity — saved the firm. In the process, she also shows that he was no naive outsider in the investment industry but, instead, one of its shrewdest players. And the contradictions continue: More recently, he was a vocal critic of the derivatives game, in 2003 calling them “financial weapons of mass destruction.” Later, it turned out that companies in his own portfolio were major players in derivatives markets. (And, in 2008, he spectacularly became one of the largest investors in Goldman Sachs, arguably the master of the derivatives game. In hindsight this investment appears to be so potentially lucrative that it may offset his recent heavy losses in the Great Recession.)

It is when explaining derivatives and other technical issues, such as the shortcomings of the “efficient-market hypothesis,” that Schroeder shines as a writer. A former staffer at the Financial Accounting Standards Board, she displays profound financial expertise and the ability to employ that knowledge to clarify and simplify complex concepts for the benefit of readers. She is also good at explicating the many contradictions in Buffett’s personal life. For example, while he keeps his modest house in Omaha and hangs out at the local diner, he has hobnobbed throughout most of his adult life with the richest and most powerful people in America. He has been a jet-setter *par excellence* (with his own jet), most often in the company of his closest friend (and, possibly, more), Katharine Graham, the now-deceased publisher of the *Washington Post* and one of the nation’s leading socialites and power brokers. And it wasn’t his wife who was in that ol’ house. For decades, he had a most unconventional marital relationship with, in effect, two wives: Susie, the one he was legally married to, living in San Francisco and seeing him regularly, and the other, Astrid, Susie’s good friend, living at the Omaha house. After Susie’s death, he married Astrid. Shades of Harriet and John (and John)!

Buffett’s life and career actually resemble Vanderbilt’s: Each man was an eccentric stock speculator, competitive in the extreme, sure of himself in business matters to the point of arrogance, and fixated on money-making. Both were mavericks in their business dealings, often willing to swim against the tide of conventional investment wisdom. (Buffett has said, “You can’t do well in investing unless you think independently.”) Other similarities are striking: Both men were incapable of expressing emotion to their wives and children, and both habitually retreated behind a hand of cards to compensate for being socially maladroit.

But there is also a crucial difference: Unlike the Commodore, the Oracle has a sense of humor about himself and understands his own limitations. Buffett truly seems to appreciate that good luck was a major factor in his success. Although he is proud of the fact that he has worked hard for what he has rightly earned — Munger calls him a “learning machine” — Buffett is quick to point out that he also was a winner in “the ovarian lottery.” He notes that had he been born the son of an Alabama sharecropper or in an underdeveloped nation, he doubtless would not have become one of the richest people on the planet. Hence, he has adopted a Millian philosophy of political economy, believing that the “ideal was a world in which winners were free to strive, but narrowed the gap by helping the losers.” His belief in meritocracy, coupled with his sense that winner-take-all capitalism is unjust, has led him to take a principled, vocal stand against the repeal of the estate tax (“I am not an enthusiast for dynastic wealth”). In this regard, at least, his words have matched his deeds: He has insisted that his own children largely make their own way in the world. And the philanthropic act that has capped his unconventional career is indicative of virtuous character: Instead of funding monuments to himself, he has chosen to give the bulk of his vast fortune to the Bill & Melinda Gates Foundation, with the proviso that the entire sum be spent quickly on the major social problems that his friends and protégés the Gateses have targeted for aid. Buffett came to the honest and humble conclusion that the couple were far more skilled philanthropists than he would ever be. Doubtless, Mill would have approved.

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