CULT

LEADERSHIP & BUSINESS STRATEGY: RUTHLESSLY REDEFINED

THE CLASSIC CEO GUIDE TO CALLING THE SHOTS WITHOUT GETTING SHOT

Arindam Chaudhuri

&

A. Sandeep

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"Read CULT! It's a view on vision you won't find anywhere"

Marshall Goldsmith

"This book shakes you up… (CEOs) better not ignore it"

Dr. Brian Tempest

"Challenges… your view of management, ruthlessly! Two thumbs up"

Raman Roy

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Praise for Arindam Chaudhuri

"The maverick management guru!"
Financial Times, London

"The intellectual litterateur of the decade"
The Hindustan Times

"Set(s) the stage on fire"
"Inspiration personified"
The Times of India

Also by Arindam Chaudhuri

PLANNING INDIA

COUNT YOUR CHICKENS
BEFORE THEY HATCH

THE GREAT INDIAN DREAM

DISCOVER THE DIAMOND IN YOU

THORNS TO COMPETITION

This one is for you Rajita. For being so amazingly talented, as a student, teacher, writer and artist; for being the most loving daughter in law and sister in law my parents and sister could have ever wished for; for being a wonderful human being, friend, and partner to me; and finally for being the world's best mother to Che!

Arindam

Also by A. Sandeep

POWER BUSINESS STRATEGIES

To my parents (my mother Sundari
and father S. Ananthanarayanan), my
amazingly patient and loving wife
Babita, my best student Steven Philip
Warner, my sister Ansu, her son
(and my favourite nephew) Kartik,
and most of all, to my best friend
Arindam...

A. Sandeep

PREFACE

Arindam Chaudhuri

It was way back in 1996, fifteen years back to be precise, when I started my career as a corporate trainer with my first solo workshop for an organization called Cimco Birla! Soon after that in early 1997, I announced my first open house workshop for senior managers; and after its success, immediately started taking my CEO workshops on leadership and strategic vision by the winter of 97! Since then, it's been a long journey – and this book for CEOs on leadership and strategy was long overdue, for I have always believed that lessons and teaching must soon be converted into writing so that they can spread faster! But it was just that every time I thought of writing a book for CEOs, I thought there was so much more to learn, more to research and more to write! Also in the

meanwhile, I was writing other books, mainly targeted at wider masses, which took a higher priority. Anyway, better late than never! Here, finally, is my book for the CEO. The principles outlined in this book will be best understood by people with strategic roles right at the top in organizations.

The roots of this book can be traced to the launch of our media outfit, Planman Media, about seven years back, and A. Sandeep, my batchmate at IIPM, and friend, taking over as the editor of our business magazines! It was the same time he also started taking a lot of workshops along with me! The process of sharing topics together during the workshops led me to request him to start a regular column in our magazines... but on one condition. And that was that on every alternate occasion at the least that he wrote, he would have to base his column on some aspect of management that emerged out of our discussions and original thoughts that we were applying in our business and teaching inside our classrooms and workshops; the aim was to convert them into a book later. This book thus contains things we have jointly learnt and believed in passionately and primarily consists of our thoughts on various important aspects of management, which we think every CEO must be made exceptionally aware of.

Most of it has been written on the basis of our workshops – often taken separately as well – board meetings, consulting assignments, classroom teachings and one on one heart to heart philosophical discussions that have taken place over the years, mainly when I learnt some new lesson of management after taking some sort of a hit! So in a way, I have lived almost every principle

of this book and learnt them through genuine practical experience and not just from books or teachers. Thus, this book is often wild. It is not what necessarily sounds good. But it is something that necessarily works – has worked in my case, though I have tried to avoid giving personal examples. Management books are generally full of goody-goody stuff due to the lack of first hand business experience of management teachers/writers – this book is not that. It will break your normal notions of management; and if you are a really hands-on CEO, it will make you feel every moment that, yes, this is right. And make you wonder, if this is right, why the hell was I trying something that was supposed to sound good instead of doing what is going to deliver results! It will unfold in front of you the magic of real life management and leadership, and every time, every written word would be backed up by examples and experiences galore. And all these examples, research findings and experiences are related to authentic people and organizations you look up to. However, I must put a statutory warning! This book, especially the second half of the book, has been written from the perspective of hard hitting business success with a constant focus throughout on the shareholder and stock market wealth maximization – something that should always be the key focus of a CEO and yet is totally missing from the DNA of the typical Indian CEO. Therefore, the book will often be less on political correctness and emotions and more on number orientation and wealth maximization!

The book is divided into two key sections: one on leadership and one on business strategy. While the section on leadership has more of my influence, in the section on

business strategy, my role has been limited to the basic idea formulated on the basis of my experience while managing our businesses or giving consulting. Business Strategy is Sandeep's core competence. This book must be treated as a CEO guide with an underlying assumption that he has knowledge of other basic aspects of leadership and business. Yet, I suggest very strongly that this book should not be taken in isolation. In this book, we have focused on a few key aspects of leadership for instance; but that is not what leadership is all about! Similarly, we have focused on some key aspects of business and competition that CEOs typically have to deal with in general. But there are many more aspects that have not been touched upon.

I thus very strongly recommend that for a real, 360 degree view of the section on leadership and success – especially chapters on vision, passion, sustained sincerity etc – one must read Count Your Chickens Before They Hatch as well as Discover The Diamond In You. Only then will the understanding of leadership be complete. Similarly, to me business is marketing. So to get a 360 degree understanding of business, one must read Thorns To Competition – especially for a more detailed view on the power of advertising, business ethics and competition. Only then will the understanding of Business Strategy be complete! This book thus ignores all such basics which I have written in these earlier books of mine, which were targeted at a wider mass. It's a continuation of three of my past books which I named, and taking it as the final word in isolation can give a wrong impression.

For all the painstaking research work, initial written

work and sincere effort to make this dream a reality, I am most grateful to my dearest friend of 22 years and coauthor, A. Sandeep. Since 1989, when I first met him in the classrooms of IIPM, I have always marvelled at his ability to grasp things – be it mathematical or theoretical – faster than anyone else I know! And the way he has converted our theories, which were often experience based, into research backed chapters for this book has been something that has left me completely amazed! I have almost invariably felt after reading each piece he worked upon, that he had made my thoughts far more meaningful and stronger with his researches and perspective! But that's not all that I thank him for! Since 1989, in times of every happiness and sorrow when I looked around, I have found him by my side. I have found him by my side during every up and down in my organization. I have found him by my side whenever I had to launch something new and I didn't know who to depend upon. I have found him by my side every time I had a crisis in hand that needed to be handled. I have found him by my side when I needed world-class inside IIPM classrooms; and I have found him by my side when I needed world-class in my magazines! And today, it's just a small addition to that long list, when I find him right by my side as the coauthor of this book. Many thanks for everything Sandeep.

They say books are your best friend. I say friends are your best books! And the amount I have learnt about life as well as business strategy from our interactions, Saturday research meetings, your classes, and your articles is unparalleled! Thanks again friend!

I must thank all the CEOs, Managing Directors, Presidents and the top leaders from India Inc. who have attended my workshops over the last 14 years and invariably left me more educated and knowledgeable. This book wouldn't have been possible without the insights you all shared during our interactions.

I also thank Piyush and Vikas Publishing for all their ever-present support! Biswajit for designing the book! I especially thank Steve for being such a huge backbone of our Think Tank and research. His work in putting so much of research together and the initial editing has been invaluable. For teaching me so much about management by being there by my side, at times giving amazing results and at times a little less, but always working with maximum passion, I thank all my colleagues at IIPM and Planman group that I work closely with, especially Prasoon, Amit, Naveen, Sourav, Shubho, Deepak, Rahul, Sutanu, Abhimanyu, Rohit (who incidentally has clicked all the cover photographs of all my books, including this one), Rajat, Namita, Rakesh, Arindam Paul and Sudhir.

For keeping my life stress-free with their tremendous emotional support, I thank my friends Sandeep, Shikha, Ashok and Uma and their lovely kids, the most loving Anjali and Mona Lisa and my jaan Sarah. For always believing in me and for loving me so much, I thank my family members – my dad for never failing to inspire, my mom for always showering so much love, my most loving wife Rajita, my most wonderful and humane son Che, my sweetheart sister Arundhati, my most enterprising brother in law Prashanto and my ever smiling nephew Zeus!

PREFACE

A. Sandeep

Twenty three years ago, sitting inside the classrooms of IIPM as an undergraduate management student – that's where my journey to understand the astounding field of strategy began. Fortunate enough to be taught by the best of professors that India had to offer – from the likes of Dr. N. R. Chatterjee, Dr. J. K. Mitra, Dr. Vinesh Chabra to Dr. P. K. Jain, Dr. Utpal Bannerjee, Dr. M. P. Gupta and many others – I did thankfully realize quite early that I wasn't perhaps the best student that India had to offer to my legendary professors. Not that the field of business management was too complicated for me to understand – far from that, within a week of attending classes at IIPM, I had powered ahead to the conclusion that I already knew all that the world of management studies had to offer.

And then smashed into my well developed hypothesis, the second week of classes at IIPM – by the end of which, I had to begrudgingly accept that perhaps all was not well with my first week's self-fulfilling testimonial. And by the third week, I had quietly put to rest whatever was left of my earlier vainglorious presumption of strategic intellect. In summary, a month of being taught by management connoisseurs at IIPM and I started to realize the stunning vastness and the almost Heisenberg-like randomness of the field of strategy and management.

But that, in truth, has been the journey almost all along my life and career. From IIPM to IIM Calcutta, where I subsequently went for my postgraduate studies, and back to IIPM where I returned as a professor of strategy, every time that I have started to believe that I've mastered this intemperate field to whatever capacity, I've been ruthlessly shoved into some experience or the other that has taught me quite the opposite and brought me back down to earth. I'm sure many of the top management personnel, CEOs and board directors reading this book would second this ideology of mine to a large extent – that whatever strategic lessons you may believe you've mastered at one point of time, those may basically be proven useless at another. 'Dynamic' is what practitioners would term this characteristic – a term I found too rudimentary for capturing the thrillingly electrifying nature of strategy.

The term I believe that best describes my thought process is actually one that Dr. Marshall Goldsmith used for the title of his 2007 best selling book – What Got You Here, Won't Get You There! Although Dr. Goldsmith, in

his book, was alluding more to workplace behavioural habits that a leader needed to destroy to take the next big leap, the amazing fact is that it's the same philosophy that needs to now be urgently applied by global CEOs with respect to their strategic orientations. For years, CEOs have been bred up on standard and glamorous sounding strategic jargons that they've grown to accept without feeling a need to question. From R&D to innovation, from Six Sigma to BPR, from quality orientation to M&A, the general CEO thought has been more to accept and follow these packaged strategies because, well, in doing so, firstly the CEO treads on ground where others have tread previously and so won't be perceived as being eccentric; and secondly, if he fails in achieving the targeted objectives, he'll just be a part of the general failed CEO club rather than being castigated for attempting to walk the less tread path alone.

Unfortunately, what held true a decade or so back with respect to outcomes of many CEO strategic manoeuvres, doesn't hold true any longer. Many of the strategies that CEOs would swear are gold-standards no more even qualify in the trials. Many of these, in fact, can devastate a company and its shareholders' wealth beyond what one can imagine. Then why don't CEOs simply analyse the current cause and effect behaviour of strategies and change their course of action?

It's not that CEOs don't do this. In fact, if you incisively and statistically analyse the world's best performing CEOs (many whose case examples you'll read in this book) – that is, much beyond what doe eyed journalists singing paeans would mention in their window dressed news

reports – you'll realize that these CEOs today practice strategies that even they were alien to a few years back. These ruthless – and I dare use the Grove adjective, 'paranoid' – stalwarts have continuously questioned and re-questioned the performance power of even those strategies that have given them enough returns in the past – and have discarded any strategy that has tested negative in the course of analysis.

But then, and unfortunately, the number of such obsessed and paranoid CEOs is significantly extremely less in this universe. A majority of CEOs of today are irresponsibly and almost criminally destroying shareholders' wealth by following rigmarole, yet sure-to-fail disaster moves, without caring two hoots about the ramifications of their actions.

CULT deeply questions the attitude of such CEOs, and more importantly, brings tomorrow's leaders face-to-face with the truism of which strategies in reality work and which don't! The analysis is done giving no quarters and sparing no criticism; yes, numbers have been utilised to prove or disprove propositions – but none without credible reasons. Each chapter provides dramatic new lessons that today's CEOs would find extremely pertinent for their corporations; lessons that may seem radical, yet are the same ones being practiced by a select group of the world's best performing CEOs.

Many of these lessons have been drawn out of a combination of exhaustive number crunching and my interactions with CEOs – both in my consulting projects and in the CEO training workshops I've taken. To that effect, I should thank a specific few of the professors

who've taken CEO workshops jointly with me, from whose lessons I've gained guiding inferences for this book – including Dr. Donald Marchand (IMD), Dr. Lakshman Krishnamurthi (Kellogg), Dr. Ravi Dhar (Yale), Prof. Amitava Chattopadhyay (INSEAD), Prof. Johannes Penning (Wharton), Prof. Skander Essegaier (Wharton), Dr. Edison Tse (Stanford), Dr. George Wu (University of Chicago), and Prof.John Czepeil (NYU Stern).

At the same time, a sincere and heartfelt thanks to Dr. M. K. Chaudhuri, Founder Director of IIPM and my former professor, for having always been extremely encouraging and for providing me the invaluable opportunity to teach management graduates at IIPM and to share with them my research and findings.

As the group editor of Planman Media – and especially as the editor of Business & Economy (B&E) and of 4Ps Business & Marketing – every week provides me a spectacular amount of operational information and data on companies across the world. A solid thanks to the editorial team at Planman Media that has helped me analyse and mine this data; and to B&E's Executive Editor Virat Bahri for taking the maddening workload off my shoulders and becoming one of the key personnel in the media division whom I trust.

The biggest thanks to one individual in the editorial team – Steven Philip Warner – who incidentally has also been my most brilliant student at IIPM. Steven's involvement in this book has been incredible and miles beyond the call of professional sincerity and dedication – from assisting in getting this book together to providing research support to editing to even checking the final

print. Thanks a million Steve!

Winston Churchill once said, "My most brilliant achievement was my ability to be able to persuade my wife to marry me." It would not be untrue if I were to mention that the emotion of Churchill's moment applies completely to me. Babita's unending patience and love amaze me, and her continuing trust in the completely hollow promises I keep making, humble me to no end. A heartfelt, loving thanks to my wife Babita.

To my parents and to my sister Ansu, a gratitude filled thanks for this amazing gift – for this book is nothing but a present that you've bestowed upon me through the care you took in bringing me up.

I also have to be honest in accepting that many of the success strategies that are mentioned in this book have been lifted straight off what my co-author and my best friend Arindam has practised day in and day out in the past few years while managing the companies and institutions in the Planman and IIPM group. In fact, many a time, it has been some discussion with him that has been the jump-start key to investigate one or the other particular strategic issue. It's a lifetime privilege to have had the chance to co-author a book with him. Arindam and I both feel that this book will define a momentous turning point for today's CEOs and provide a brutally honest sounding board for them to question themselves.

At the same time, it'll be a moot point to mention that irrespective of how impressive Arindam and I feel the content within these pages are, by our very own premise, a few years or a decade down the line, these strategic lessons would themselves become inapplicable for the

times that come about then.

And that is the astute fact of it all. If you've got a brilliant strategy that's worked great all these years, then it's quite clear that you've never had the intent to test out strategies that could have worked out greater and more brilliantly. In essence, distrust every profitable move, question every achievement, investigate every tested plan – and you may well have the character to be part of an extraordinary CULT of gentlemen, those that are calling the shots without getting shot!

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SECTION 1

LEADERSHIP

THIS SECTION IS A COLLECTION OF OUR THOUGHTS, BACKED UP BY EVIDENCE AND RESEARCH, ON SOME OF THE MOST CRUCIAL ISSUES RELATED TO THE CHARACTERISTICS A LEADER MUST POSSESS AND DEVELOP – FROM EMPLOYEES' MANAGEMENT SKILLS TO OTHER SIMILAR KEY HUMAN DEVELOPMENT RELATED FOCUS AREAS – TO BE THAT RARE, SUPER SUCCESSFUL CEO!!!

1
VISION

THE NECESSARY, OBSESSIVE COMPULSION

Does a leader necessarily need to have an excellent vision to succeed? Well, we shan't even childishly attempt to draw the metaphor up in the real corporate world – as the answer is a resounding yes! That's why we just couldn't think of starting the book with anything else! That's how important vision is to business! The biggest problem with leaders and employees alike is the failure to develop a vision for or identify with and chase a vision! And without a clear vision, no organization, leader or employee can be driven enough to lift an organization to excellence! The problem is, many CEOs quite easily assume that they understand the definition of vision – but unfortunately, and far from it, the general definitions

VISION IS THE OBSESSIVE COMPULSION TO CONTINUOUSLY SET HIGHER TARGETS AND ACHIEVE EVEN BEYOND THAT

of vision are simply limited to wishy-washy nice looking statements that can be peddled around to the community for earning useless brownie points.

Yes, there have been icons in the corporate world who've personified what all dramatic vision can achieve. To that extent, and just so that one is not shoved into our number crunching analysis right at the start, here are a few true visionaries who we believe stand as global benchmarks in visioning.

This boy of 14 dropped out of school and joined his uncle's store as a watch salesman (as his penury ridden father had passed away due to tuberculosis). He worked 16 hour days, and even learnt English from a tutor during the night, after work! Seven years later, when he was just 21, he borrowed capital from some friends and family members and opened a plastic flower manufacturing company. Nine years later, his firm became the largest supplier of plastic flowers in Asia. Half-a century later, his empire spans across industries like oil, electronics, telecommunications, retails, ports, power, electricity and even health and beauty. The name of his empire – the $35.77 billion worth (as on November 22, 2011 on NYSE-Euronext) publicly traded Hutchison Whampoa group (which he acquired from HSBC in 1971) and Cheung Kong Industries (which he founded in 1950), which operates across 55 countries and employs 230,000 people. The name of this determined and born visionary

– Sir Li Ka-shing, the richest man in Hong Kong and the 11th richest on the 2011 Forbes billionaires list, his net worth valued at over $26 billion, with his empire worth much more – $90 billion in m-cap (2011 data). Can you match his vision?

Born nearsighted, a dyslexic, a school dropout, a failure in the first two business ventures he started, this man started a magazine called Student to cater to young demographics. To cover postage charges, his mother donated four pounds. Working from his basement, Student debuted in January 1968 (The first feedback he received for the magazine was from the headmaster of his previous school, who wrote: "Congratulations! I predict that you will either go to prison or become a millionaire"). Within 25 years of that letter, this visionary put into place a diversified group with more than 150 companies, spread across six continents; and much to prove his school headmaster wrong, became a billionaire! With businesses ranging from comics to airlines, from colas to mobile telephony, Sir Richard Branson's personal wealth now amounts to $4.2 billion, and his fame to something much beyond! Well, can you match his vision?

A few years back, the Stanford University paper (Vision, Key to Creating Shareholder Value) quoted Lord John Browne, then CEO of the oil behemoth BP, "You have to remember what your vision is, and you have to be disciplined about sticking to it in order to create shareholder value!" When Browne became BP's CEO in 1995, the company's annual revenues were $26.95 billion. In 2007 when he resigned, they were $274.32 billion – a stupendous rise of 917.88%! Under him, the company's

m-cap increased by an incredible 488.71% to touch $238.25 billion when he left the corner office. That is vision!

The brilliant management guru Jim Collins, using a 70 year-long study as a basis, showed in his best selling book, Built To Last, how 'visionary companies' gave stock returns that were almost 700% more than 'comparison (not so visionary) companies'. The findings of a huge research by the well known Ken Blanchard Group (covering 2000 odd worldwide respondents between 2003-2006) show how "failing to communicate the vision in a way that is meaningful" is the biggest mistake that leaders make when working with others. Prof. Robert Kaplan, Professor of Management Practice at Harvard Business School writes in the July 2011 HBS Working Knowledge paper titled, 'Looking in the Mirror: Questions Every Leader Must Ask', "When I see a problem with a business or nonprofit, it often starts with a lack of clarity about the organization's aspirations. The leader may have a clear vision in his or her head but has not communicated it effectively throughout the organisation. When there is not a clearly articulated vision along with a manageable set of key priorities, you may see an organization where employees are expending their energies in a number of uncoordinated directions. Leaders need to ask whether they have articulated a clear vision and, just as importantly, whether their key employees can re-articulate this vision in a consistent manner. For instance, DuPont's vision is to be the world's most dynamic science company, creating sustainable solutions essential to a better, safer and healthier life for people everywhere. This vision helps DuPont employees

better understand what (and why) they are spending their professional energies trying to accomplish.”

FAILING TO COMMUNICATE THE VISION IN A WAY THAT IS MEANINGFUL IS THE BIGGEST MISTAKE LEADERS MAKE

Here’s the shocker: as Kaplan reveals in his book titled, ‘What to Ask the Person in the Mirror’, many CEOs tell Kaplan that they don’t have time to figure out their vision and priorities – they’re working 80-hour weeks! Prof. James L. Heskett, Baker Foundation Professor, Emeritus at the Graduate School of Business Administration, Harvard University, in his July 2007 paper titled, ‘How Much of Leadership Is About Control, Delegation, or Theater?’, further adds, “Companies growing value the most are the ones with leaders that have a clear vision, continually communicate that vision, and then get out of the way. Like a movie director the leader incites, excites, and pushes the team or, you could say, choreographs an output that (moves) the company towards the vision!” Are you such a leader?

When Michael Boneham, MD of Ford India, spoke to Business & Economy magazine in August 2010, he credited the revival of Ford globally to Alan Mulally’s vision. He said, “Everyone suffered to an extent through the global financial crises. It was not only the car industry; it was the total industry; the global economy which faced difficulties. For Ford, we started with a better plan and vision, which Alan Mulally initiated. During the crisis, we were heavily into restructuring, looking at volume, doing balancing, getting capacity as per demand, looking at our

global product range and making it from the fuel efficient perspective. We were taking our profile from being a truck manufacturer to a motor vehicle manufacturer, where we went through the segment range. We all started significantly on the journey and borrowed over $20 billion to fund our products right and that was when the credit markets were open and available to us. That was a smart move when the economy came down and it enabled us to come though the very difficult period. We were very proud of the fact that we did not use any government funding in US. If you look at the turnaround and the way we moved very quickly from what was the most devastating and the most difficult period for the global economy and the industry in 2008-09 to $2.3 billion dollar profit in Q1, 2010."

In a column on leadership styles (titled, 'Mr. Leader, whom do you serve?') that Prof. Modesto Maidique of Harvard Business School contributed to in the October 2011 issue of Discover The Diamond In You (a Planman Media publication), he describes six levels of leaders; he explains that the Level Five leader, who is a "Builder", "strives not to reach a goal but to build an institution". "Builders are legendary leaders such as IBM's Tom Watson Jr., GM's Alfred P. Sloan, and Harpo's Oprah Winfrey. These people serve their institutions by managing for the long term and not allowing themselves to be seduced by the twin mirages of short-term profit or stock market valuations. They have a grand vision for the future of their organisations, and they infect others with their energy, enthusiasm, and integrity. These are the leaders we write books about, study, try to understand, and

lionize," he writes. In a 2003 HBS article (titled, 'Guiding Growth: How Vision Keeps Companies on Course'), famed author Mark Lipton concluded that "vision, in fact, makes a profoundly positive difference" to a firm's performance. Lipton goes on to show how even "the best talent is attracted to firms with a compelling vision."

So what is a vision?

Vision is the obsessive compulsion to continuously set higher benchmarks and achieve beyond those benchmarks, and is the essence, the soul, the character of great leadership. Nothing is more critical and more elusive than the vision of the top management. In the cat-eat-cat world of contemporary business, visioning is the philosophy of looking into the best that the future can 'NOT' offer and ensuring that the organisation has a burning desire to vie for that seemingly unbelievable and unachievable objective.

Without a sustained and sincere visionary approach, not only does the CEO doom himself, he also magnanimously devastates his company's future irreparably, targeting objectives which will never allow the organisation to become a global leader.

Vision is not just a statement – and those CEOs who believe that a single wishy washy statement or a single page that summarises the vision of a company is enough said on the matter, would clearly fall in the challenged category. Microsoft, TCS, GE group companies, almost all have quite plain vision statements. Vision has to be extremely number driven (profits, sales, m-cap, employee productivity, or any other factor you may wish to include) and time oriented (in how much time, what's the visionary

IT'S NOT ABOUT WHAT VISION YOU HAVE, BUT ABOUT THE VISION YOU MAKE YOUR FOLLOWERS BELIEVE IN

target to be achieved). Vision has also to be necessarily broken down for each significant level in the organization.

Now that you've understood this, for an additional radical interpretation of visioning and to understand a workable process model of how to ensure that vision is not only developed, but spread throughout the organisation, refer to the Epilogue section (chapter on Vision Vampiring).

Be that as it may, there's another question that a CEO must ask himself. Does he know the difference between the vision and mission concept? Many CEOs are loathe to admit this, that they literally have no idea of the vast differences between these two areas. Read ahead to have an overall grasp of...

THE MISSION QUESTION!

Is a mission statement really required? Are companies wasting away their money and time in attempting to develop mission statements?

For the sake of technical differentiation, vision statements are not the same as mission statements. To give a quick glimpse of the essential difference, a mission statement represents the reason for the existence of the organisation. It's a feel-good statement that is ethical, motivating, and talks 'generally' about the current & future of the organisation. A vision statement is necessarily about the future. Vision statements are aggressive and are mostly meant to be viewed as reasons for ruling the world

in the future. That's not the case in mission statements.

Glueck & Jauch say, "The mission can be used to legitimise the organisation." In other words, its profits – because the external environment is always questioning organisations that earn large, abnormal or supernormal profits. But then, there are organizations like Maruti Suzuki, along with companies like Wipro and Reliance, that either have no mission statements (um, don't confuse advertising slugs with mission statements please) or have hidden the statements in various jargons. The question then is, does the mission statement really matter?

In small companies that are privately held, the need for a publicised mission statement is very low as the management can keep a tab on all stakeholders at close quarters themselves. But in large organisations, the answer is "Very much!" The mission statement is inarguably one of the most important public relations exercises undertaken by any organisation to be accepted as ethical, society friendly, value based & for the benefit of stakeholders. In fact, it's extremely necessary for any large company's management to implement this amazingly vibrant PR hype focused on prime stakeholders and other entities (customers, societies etc). Large companies have more branches, more employees, more customers, more need for government interaction, more necessity to show their commitment to Corporate Social Responsibility; in summary, more need for having a standard PR effort. With so many stakeholders, it becomes tougher for the management to keep a direct tab on each and every relevant group. To that effect, the mission statement is the strongest tool CEOs have to maintain a wonderfully

pervasive PR hype about the corporation. Even General Electric – a company which people said never had a mission statement – has had a 'value statement' for decades. Jack Welch was no ignoramus.

Unfortunately, sometimes the mission statements of various organizations end up being mirror images of each other rather than displaying the required inimitable uniqueness in culture. Let's look at the Microsoft mission statement: 'To enable people and businesses throughout the world to realize their full potential'. Look at what the mission statement (or the purpose statement) of GM was at one point of time: '"The fundamental purpose of General Motors is to provide products and services of such quality that our customers will receive superior value, our employees and business partners will share in our success, and our stockholders will receive a sustained, superior return on their investment." If one were to change the name of General Motors to IBM, the statement would still be extremely appropriate.

Are these companies to blame? Not at all! The folly of mission statements is in their creation itself. In striving to be looked upon as society friendly, most of the mission statements of organizations now contain standard words & similar phrases in order to not be off the beaten track. Given the true need for a mission statement, the deliberation within any organisation while developing the mission statement should ensure that the statement remains on the beaten track, lest the corporation be seen negatively by outsiders. Microsoft is an extremely intelligent firm that has realised long back the irrelevance of wasting time in developing nouveau

mission statements.

The mistake that modern business corporations are making is to not market and advertise the mission statement appropriately. In other words, you as a CEO have the prime responsibility to advertise the mission statement in a similar manner as you would when you advertise a product; albeit with reduced budgets of course. You might not be able to really "Save our tigers," but the least you would have managed would be to ensure that companies like Aircel get a societal friendly image for the next few quarters.

THE MISSION STATEMENT IS ONE OF THE MOST IMPORTANT PUBLIC RELATIONS EXERCISES UNDERTAKEN BY ANY ORGANISATION

Below, we list out the three most frequently asked questions on mission that we have been asked by CEOs through our past years:

Why cannot vision statements be used as PR hype instead of mission statements?

Vision statements can be used as PR hype for internal stakeholders (most importantly management, shareholders…) as they're supposed to talk about pure numbers and targets. But for external stakeholders (customers, government, society, regulators etc), dramatic, money driven vision statements of the organisation will be interpreted as being unfriendly to society and aggressive beyond requirements. So use the mission statement; it was meant for this. If visionaries have vision statements, missionaries have...? There, you have the answer.

Like vision statements for lower levels, are different mission

statements required at different levels of the organisation?

Technically speaking, the answer depends upon the organisation's need. Organisations that have expanded globally or have many operationally diversified divisions have a bigger need for localised mission statements, like McDonalds – which has different mission statements for its various operations. For example, Microsoft, apart from its main mission statement, has a Global Diversity & Inclusion mission statement too, which is: "To be the world's #1 provider of innovative technology solutions that help realize the full potential of its diverse customers and partners around the world."

How frequently should one modify my company's mission statement?

Given the objective of a mission statement, and given the fact that the mission statement should have been constructed to last a long-term, it should not be changed frequently. At least, not unless the founders of the mission statement were really stingy with the words they used…

But my employees don't know my company's mission statement. Is that a problem?

Yours, not ours!

2
AUTHORITARIAN LEADERSHIP

DOES AN AUTOCRATIC CEO PERFORM BETTER THAN NON-AUTOCRATIC ONES?

A look at the most successful corporations of the world and you'll realize how they all have autocratic Hitlers at the very top, who all believe that humans can never be productive until they are whip-lashed. Surprisingly, there may be evidence supporting such leaders!

Hold on! Before you burn us at the stake for invoking the Hitlerian context, allow us to confess that we have no love lost for the clipper megalomaniac. And we'd hope that none ever follows the narcissistic madness of the man. But political correctness aside, the truth in the real corporate world is quite to the contrary. Despite whatever the world might wish for, the fact is that there

THE BEST OF COMPANIES TODAY HAVE THE SAME LACK OF TRUST IN THEIR EMPLOYEES' SINCERITY AS USED TO BE YEARS AGO

is at least one quintessential and ubiquitous quality of this Austrian born German deuce that is followed to the tee by leaders of some of the largest and most successful corporations of the world – a quality that had, before WWII, led to Germany becoming the superpower it was; a quality that now is assisting leaders to ensure that their corporations are amongst the most productive and most efficient business units this world has ever seen! This is because while leadership styles which are more democratic are wonderful to read and be applied, the fact of the matter is that such styles can be successful only when the people you are leading are most mature, responsible and ambitious. But finding such mature people to work with is near impossible!

Yes, we do hope that every organization has mature people at the top with whom the CEO doesn't need to apply an authoritarian style. But real life experiences of successful leaders show quite to the contrary!

If you were to reach a conclusion that as coauthors, we are referring back to the days of Theory X management, a theory which used to be ruthlessly applied in the early stages of industrialization when coal mining used to be the key industry, well, it almost is so. The only difference is that technology has made the autocratic leadership look very savvy! The best of corporations today have the same lack of trust in their employees' sincerity levels as they used to have years back in coal mines. But today, they

never really exhibit it vocally. Instead, we have automated processes which leave no option for an employee to work as per his way. Like it or not, calls are thrown at the BPO worker by the automatic software, his loo breaks are timed, his minimum expected calls are forced upon him. Be it manufacturing or services, employees are not given a choice in any great organization anymore. For the leaders have realized that given a choice, most of the employees will be under productive. So technology is today used to force them to deliver. Autocratic leadership is done unhindered through the use of more and more ruthless technologies. And the most successful leaders use this style of leadership with the majority of people (minus the few passionate mature colleagues) without guilt and achieve the best of results! And that is precisely why dictatorship lives on, and should, in the CEO world!

William Clay Ford stepped down as Ford's CEO in 2006, the carmaker was all drenched in a big bowl of hot soup, with the worst market scenario. Detroit had totally given up on Ford. The world had too. William Ford tried hard, but there were no respectable names in the auto space willing to take charge as Ford's CEO and digest the numbers that threatened Ford's very existence. Imagine this: During the first half of 2006, while Nissan earned $1800 per vehicle, Toyota and Honda pocketed about $1,400 apiece. Fly westward, and the numbers turn turbid. While GM lost $333 per unit, DaimlerChrysler lost $1,100 during the same period. And Ford? It bled the most – a disquieting $1,400 per vehicle.

Given the state then, what followed in the succeeding years was baffling – despite Ford being the one expected

to crumble first, GM and Chrysler were the ones forced to live through the ignominy of a Fed bailout plan of $110 billion. As for Ford, it managed to become the first one to bounce back into the black sans a revival package, having made $2.72 billion in net profits during FY2009 – the very year GM & Chrysler filed for Chapter 11!

And how in heavens did this astounding turnaround happen? The answer, the single change agent, as experts and researchers globally have accepted now, was the recruiting of one man – the most authoritarian CEO that Ford had ever seen after Henry Ford – Alan Mulally. This man, a veteran engineer at Boeing (who was in charge of the Boeing 777 development project), took up the task to play Captain America for Ford Motors in September 2006. Forget about never having been exposed to labour issues in his life (Ford had had enough of it with the UAW in place), or even having never seen a car being assembled before, this new boss of Ford, had never had the chance to make a single pitch as a salesman during his entire career. But what made him victorious was not just his desire to win, but in his viewpoint that what he – and not his team – believed was right. His style was autocratic and simply "results oriented". When Mulally walked in as CEO, Ford was known as a maker of pick-up trucks and the Mustang. Despite popular displeasure, he forced his strategic planning teams to get a line of more efficient & smaller engines in place. It worked for the company. In his first two months at the company, he went ahead pledging $23.6 billion against Ford's assets including its logo. Ford's management disagreed. But Mulally was convinced, and that was enough. The idea of doing

away with Jaguar, Land Rover, Aston Martin and Volvo, was his brainchild.

THE MOST SUCCESSFUL LEADERS USE A DICTATORIAL LEADERSHIP STYLE WITH THE MAJORITY OF PEOPLE

During his first day at work, Mulally went ahead to check Ford's product lineup. When the engineers laid it out, Alan enquired why the iconic Taurus brand was missing. "Well, we killed it. We made a couple that looked like a football. They didn't sell very well, so we stopped it," said one Ford official. To this, Mulally retorted, "What do you mean, you killed it? You stopped the Taurus?!? You've got until tomorrow to find a vehicle to put the Taurus name on because that's why I'm here." Mulally had no statistics to justify why he wanted the Taurus back in the 21st century. He didn't need one, because that was him – the authoritarian saviour of Ford, the latest rage in Detroit.

Mulally wanted results. Period. Today, Ford's employees in US carry plastic cards with four goals printed on one side (which Mulally puts as the "Expected behaviors") and "One Ford" written on the flip side. "This is me. I wrote it. It's what I believe in. You can't make this sh!# up." He loves taking daily reports and every Thursday, starting 8 am, you can see all there is in the name of bashing up of non-performers in the conference room that Ford's employees call "the Thunderbird Room". There are eight clocks on the wall, each representing one time zone and the chair he sits on, he likes calling it the "Pilot's seat". Did someone mention narcissistic again?

Under Mulally's reign of a little over five years, Ford's

m-cap has increased by 157.64% to $38.19 billion (as on November 22, 2011) enough reasons for shareholders to love this 66 year-old imperious monocratic boss. When Prof. Arthur Wheaton, an Aerospace and Automobile industry expert and Faculty member at Cornell University spoke to our magazine Business & Economy, this is what he had to say about Alan Mulally: "Ford has a bright future under Alan Mulally. He has shown significant leadership with a big ego. That is an unusual combination in the auto industry. Mulally has earned every dollar of salary during these trying times. He has been able to save the company without major government bailouts. The future promises to bring additional challenges (quality issues, government fuel economy standards, global competition, etc.). Ford is currently out of danger and Mulally should continue to push his One Ford mission and eliminate internal barriers. I give Mulally a 10 out of 10. He was the right person to save Ford. He is also the right person to mentor his replacement. Ford has strong talent in the executive ranks but I think Ford would be better off keeping the one man who made the difference - Mulally - for a few more years to ensure a smoother transition."

Mulally is only one of umpteen despotic CEOs who have prospered and made billions for their companies. The late Steve Jobs, former CEO of Apple, is unmissable. Once out of Apple after a power struggle with the-then top management (the top brass considered him a "control freak"), he struck back and how. Despite having passed away in October 2011, the legend of Jobs is still today the strongest example of how an insistence on total control over your company and employees (call it totalitarian

leadership if you like) and a focus on innovation can keep the clock ticking, with the sound getting sweeter by the second. There was a time when during late 1997, only a year after Jobs had taken over as Apple's Interim-CEO (he had returned to Apple in late 1996), someone had asked Michael Dell during a conference what he would have done had he been in Jobs' shoes. Dell's reply to this was, "I'd shut Apple down and give the money back to the shareholders." Then, Apple was just worth $3.1 billion, while Dell was worth $28.1 billion. 14 years later, Dell has become smaller with an m-cap of $26.96 billion (as on November 22, 2011), while Apple's m-cap has grown by more than 11,000% to touch $342.96 billion (as on November 22, 2011) and it is today the most valuable IT company in the world, and the most valuable on the bourses.

What Jobs did was to use a tyrannical leadership style – fire and force at will – to ensure that his employees delivered products that consumers lusted after, in an ever-evolving digital world. It has worked so far and Cook may follow the system to the rote. When Steve was alive, the American author Andrew Keen's in his best-seller titled, The Cult of the Amateur, wrote, "There's not an ounce of democracy at Apple. That's what makes it a paragon of such traditional corporate values as top-down leadership, sharply hierarchical organisation and centralised control. It's Steve's company – pursuing his vision, at his pace, with his team, making his products. Without Steve Jobs' authoritarian leadership, Apple would be just another Silicon Valley outfit..." Again, when Jobs was alive, in one of his conversations with one of Planman Media's

MULALLY, JOBS, WELCH ARE A FEW OF THE UMPTEEN DESPOTIC CEOS WHO HAVE PROSPERED AND MADE BILLIONS

publications, Discover The Diamond In You, Colorado-based technology expert Rick Sturm, CEO of Enterprise Management Associates, said that, "Steve Jobs is a special example of a leader who dominated his company employees and guided them rightly with his authoritarian leadership style and unmatchable vision. He believed that one man with one vision can make Apple an iconic brand and company. And we see that his belief has actually materialised."

There are many names from history books that testify to the fact that oppressively domineering leaders stand for excellence, not mediocrity. Even today, ExxonMobil's dictatorial CEO Rex Tillerson runs the oil major in the same way it has been run for years by the likes of John D. Rockfeller and Lee Raymond – preeminent and absolutist control over decision-making, whether it comes in the form of a justification as to why Exxon should not bet on non-fossil fuel or why the company should continue betting on Qatar for more than 13% of its reserves. The credit for the highest profits made by any company in the history of mankind goes to Rex of Exxon. Under him, despite fluctuating oil prices, during just the past 4 years (FY2007 to FY2010), Exxon has reported net profits of $142.61 billion. Today, Exxon is one of the most valuable companies in the world – with an m-cap of $368.65 billion (as on November 22, 2011).

Even research supports the cause of authoritarian

leadership style, especially during times of crisis. A 2006 Harvard Business School case, titled, 'Harley's Leadership U-Turn', proves how under Rich Teerlink (ex-CEO of Harley-Davidson), the organisation took a U-turn from near extinction. It says, "When an organisation is under extreme pressure – so much so that one wrong move can mean its collapse – authoritarian leadership may very well be necessary." In another paper titled, 'Is Servant Leadership Part of Your Worldview?', by Dr. J. Howard Baker of University of Louisiana, he states, "An authoritarian, command and control model of leadership may be very effective for stopping something, destroying something, or conquering something..." He goes on to praise Jack Welch, the authoritarian former Chairman & CEO of GE, one of the most successful CEOs of all times, under whose 13 year-long tenure, GE's market value appreciated by 2,828.5% to touch $410 billion. [This is something which Jeff Immelt, his democratic-participative leadership styled-successor has failed at; GE is valued at $221.9 billion today – down by 45.9% in a matter of six years.] Enough proof that authoritarian leadership does much good for investors.

From Larry Ellison, who has been written about as being an autocratic indomitable CEO (in one such book titled, 'The Oracle of Oracles', by Florence Stone, he has been described as "Ruthless, volatile, arrogant, impatient and autocratic") to IBM's former CEO Lou Gertsner whose shout-and-command policy helped save IBM (when he became the CEO in April 1993, IBM was struggling to survive, having lost tens of billions since 1990; under him, IBM's m-cap increased by 476.67% in

a decade to $173 billion, while its stock price increased sevenfold, to $101), there are names that have become immortally known as leaders who have used lashing at will.

The CEOs we have mentioned embody the typical American ego, and they only have two 'bad' habits – a hard-to-believe vision and an unbelievable fantasy for total control. And the reason all this despotism works is because experience has shown these iconic legends that humans, in general and most of them, will cheat and shirk work at the first possible instance. Of course, there will be exceptions – like you, obviously – who would not shirk work and who would not need to be threatened, to be productive. But these will remain, as the saying goes, exceptions. Once you truly start believing that the only way an organisation can be ruthlessly productive and profitable is to be as ruthless to its people, that's the moment you've qualified as one of the world's best CEOs.

We must say that leadership is not all about what is written here. For a detailed orientation on our view on leadership, we suggest you necessarily read the last two chapters of Count Your Chicken Before They Hatch and The 59 Minute Success Guide, Discover The Diamond In You. This current chapter only deals with one of the four key styles of leadership explained in CYCBTH. But at work and for success, perhaps this is what works given the basic tendency of employees to shirk work in general.

3
CEOS THAT WE RECOGNISE

SHOULD A CEO'S FACE REPRESENT THE COMPANY?

Undercurrents of controversies have always chaperoned the question: Should a CEO's face represent the company and vice-versa? The answer is, yes – for good or for worse! That black and white photograph of Henry Ford, standing next to the ancient Model-T will always represent what Ford Motors was during its glorious heydays. Bill Gates will always be the representative of the might of Microsoft, all across the world, despite his giving away all his executive powers. Carly Fiorina will remain in the memories of thousands, for having been the loud public CEO, who created the much criticised HP-Compaq giant. And there's little debate whose face

TOYODA STILL IS THAT FIGURE WHO APOLOGISED BEFORE THE US CONGRESS FOR RECALLING 8 MILLION CARS

one recalls when one thinks of Dell Computers.

Much has been written and discussed about the Fed's unceremonious firing of Rick Wagoner (the-then CEO & Chairman of General Motor Co.) in March 2009, after he came under heavy criticism for allowing GM to bloat beyond logical dimensions, thereby paving way for $82 billion in losses since he took over as its CEO in June 2000. The Harvard alumnus scrapped the EV1 electric-car programme and diverted resources away from hybrids (his biggest mistakes as he confesses), but had built enough credibility to carry all the shame on his strong shoulders. And to give what's due to him, he became the symbol of the imperial auto manufacturing American nation called GM, so much so that the Fed practically had to ask him to step down in lieu of further aid to GM. Wagoner represented brawn; the man who had worked for 32 years at GM, ever since he earned an MBA degree, represented GM. [For the critics, under Wagoner, GM had more cars that exceeded 30 miles-per-gallon than any other automaker in the world!]

To many, Akio Toyoda, the President of Toyota Motor Co., represents nothing but a seen-now-gone-next-second meteoroid. Toyota surpassed GM in 2009, to become the world's largest producer of automobiles for just a year before it got off to the worst possible start to 2010. To many more, he still is that sorry figure who apologised before the US Congress for his act of recalling 8 million

vehicles in 2010, while taking home a $16.4 million slap. To most, the only picture that comes to mind when you imagine what Toyota is, is its three elliptical logo. Toyoda was a character unknown to the world; no doubt, even when he testified how the company was committing to recalls in all good faith, he failed. You don't believe a CEO whom you've never seen before – neither as a customer, nor as a Senator!

"If you get your face and your name out there enough, people will start to recognise you," says this flamboyant CEO of over 200 branded companies. Over the years, he has launched costumes to amuse his business partners, customers and the media. He has thrown himself off tall buildings, hung off bridges and taken deep sea dives – all to grab attention. He had the gall to drive a tank into Times Square and fire at the Coke signboard to launch the challenge against the big cola maker. His bet – Virgin Cola. The CEO – Richard Branson, whose flamboyant smile represents his group of over 200 companies – the Virgin Group. "A young girl once came up to me and told me I could be famous because I looked just like Richard Branson," says he. That's the power of being a CEO brand.

Larry Ellison, the highest paid CEO of 2009 is the poster boy of Oracle. Not easy to become a recognised face amongst the masses, especially when your company has a B2B business structure, but Ellison, born out of wedlock to a 19-year-old Jewish mother, had managed his public image quite well, despite having been married four times! He started Oracle in 1977 (the same year when Wagoner joined GM), investing $1,400 of his own money.

Today, it is worth $150.33 billion (November, 2011) on the bourses, and with a personal wealth of $39.5 billion (as per Forbes 2011 list) Ellison is the fifth richest man in the world. Ellison has suffered a series of personal mishaps, but has managed to cover it up well, for the sake of his corporation, which has grown in leaps by the years. Today, he is known for his extravagant lifestyle, his $200 million real estate, his fleet of exotic cars and his personal aircraft fleet. But what he is known for most widely is for being the poster CEO of Oracle.

Jeffrey Immelt is another name that has earned a huge critical following – for converting GE into more of an Automated Teller Machine than a manufacturing giant (close to 31% of GE's 2010 revenues came from GE Capital Services). The slowdown hit it hard, washing away close to $100 billion of its m-cap. It wasn't an easy task to become the GE ambassador to the world, but Immelt, minus all his shareholder wealth destroying acts, has done his bit to play it to the galleries. Some blame him, some praise him, but everyone knows him – and so he stays.

Larry Ellison's good friend Steve Jobs was no different. From being the brand ambassador at the launch of every iconic Apple product to firing employees at will, his fame grew over time, at manifold the rate at which he lost pounds fighting cancer. If it was not Steve, it was not Apple!

Academic research too proves the importance of the CEO's face representing the corporation. In a year 2008 report titled, 'The Face of Success: Chief Executive Officers' Appearance Predict Company Profits', Profs.

Nicholas O. Rule and Nalini Ambady of Tufts University, concluded after examining the public presence of CEOs of 50 Fortune 1000 companies (top 25 and bottom 25) that, "Participants' naive perceptions of leadership ability from CEOs' faces are significantly related to how much profit those CEOs' companies make. Moreover, these judgments of leadership are not related to judgments of perceived power. CEOs from more versus less successful companies could be distinguished via naive judgments based solely on perceptions of the CEOs' facial appearance." So the more a CEO projects a stronger image in public, the more profitable his company is perceived to be. Believable.

LARRY ELLISON MAY BE KNOWN FOR HIS EXTRAVAGANT LIFESTYLE; BUT HE IS MOST KNOWN AS THE POSTER CEO OF ORACLE

The list of CEOs who have led from the front, both in the boardrooms and outside in the open isn't short. From Warren Edward Buffett (of Berkshire Hathaway) to Rupert Murdoch (of News Corporation), from Larry Page and Sergey Brin (who are known for their product Google, unlike the founders of Orkut, LinkedIn and Twitter) to Mark Zuckerberg (the 27 year old founder and CEO of Facebook and the youngest self-made billionaire in the world), from Indra Nooyi ("The Iron Woman" who is not just the most powerful woman in the world on many lists, but also one who has transformed PepsiCo's portfolio, and publicly so, leading the aggressive expansion of PepsiCo into nations like Brazil, Russia, India and China; not many would recall who CocaCola's CEO is!) to Lakshmi Mittal, the list is long.

Think about it, American CEOs, you'll know a dime a dozen. But if we were to ask you to name a few Japanese CEOs, then apart from Akio Morita, you would know none. Is that the reason why for the past many years, Japan is suffering from a debilitating recession? We don't have the answer to that, but what we can surely say is that Japan lacks CEOs not only at the corporate level, but even at the country level (for example, the US has Obama) who would be able to jump-start the economic growth by individually becoming the face of change. Clearly, the term 'leading from the front' was not made for no reason.

NARCISSISTIC CEO: SHOULD YOU BE ONE?

Closely related to what we just tried to propagate is the issue of narcissism! You tell us, would you ever like such a person around you, especially as your superior – a person who dominates meetings, is a pathetic listener, does not at all show empathy, with a clear distaste for helping others and one who believes in giving vainglorious visionary speeches? In fact, would you want your CEO to be a narcissist? Irrespective of what you might feel, the world's best CEOs are narcissistic.

We guess Larry Ellison, about whom we mentioned a few paragraphs, is an archetype example of a narcissistic head. This man was born to a teenage unwed girl, who gave him up for adoption! A dropout from the Illinois University, he's known for his ultimate arrogance, and has not spared even his family members, what to talk about employees. The four times married – thrice divorced – man once boasted to BusinessWeek many years back, "As

long as Stanford keeps turning out beautiful 23 year old women, I will keep getting married." His best friend, as we mentioned, was Steve Jobs, another temperamental leader with many similarities [including being put up for adoption and being a dropout]. Another friend of Larry, Andy Grove, warns in the above mentioned BusinessWeek report, "I would beware of him as a businessman," while Bill Gates adds, "His hype has expanded to fill his ego." Larry's vision remains stupendous. His objectives are as arrogantly audacious as his attitude. That he is vainglorious is not in doubt – and that this vaingloriousness is actually a virtue for him, is almost but confirmed when one reads his biography, 'The Difference Between God & Larry Ellison: God Doesn't Think He's Larry Ellison!'

But does one example prove the complete hypothesis? Unbelievably, Ivy League research now supports the concept that visionary leaders are narcissistic. In fact, considered amongst the 'Best of HBR' is HBR's 2004 report, 'Narcissistic Leaders – The Incredible Pros...,' that says, "Many leaders dominating business today have what psychoanalysts call a narcissistic personality. That's good news for companies that need passion and daring to break new ground." The report confirms that productive narcissists – like Welch, Soros etc – have "the audacity to push through massive transformations..., and have compelling, even gripping visions" due to their intense desire to compete and – through their awe inspiring speeches – have the capacity to inspire scores of people, despite their being poor listeners, lacking empathy and hating criticism. Professors Chatterjee and Hambrick of Penn University proved in their spectacular May 2006

paper, 'Narcissistic CEOs...', that narcissism in CEOs "is significantly positively related to several company outcomes, including strategy dynamism..."

AMERICAN CEOS, YOU'LL KNOW A DOZEN. BUT JAPANESE CEOS, APART FROM AKIO MORITA, YOU MAY KNOW NONE

Think about it. From the sniggering "You're fired!" Donald Trump to the volcano-headed Steve Jobs, from the shoot-from-the-hip Michael Eisner [Disney CEO, added 2,747% to shareholders' wealth from 1984 till 2005, when he quit] to the don't-know-don't-care Roberto Críspulo Goizueta [Chairman and CEO, The Coca-Cola Company, 7,100% increase in shareholders' wealth, 1981-1998], the world's top CEOs have been atrociously egotistical. Narcissism works. Period!

Look at the radically scorching connect we've worked out till now in the first three chapters – *have an audacious vision at every level, whiplash employees into submission so they work, ensure that the world recognizes your face as being the face of the corporation; and finally, have a to-hell-with-everyone-else attitude hanging around* – and you have the makings of being of what we coauthors should call the world's finest CEO. And no, there's no sarcasm involved out here; only pure analysis.

And you've all but finished just three chapters till now eh!

4
THE POWER OF ONE MAN AT THE TOP

SHOULD A CHAIRMAN AND CEO'S POSITION BE HELD BY SEPARATE INDIVIDUALS OR BY ONE?

Our common friend, married for two years, seemed totally flustered when he met us some time back. The reason, we were told, was the wife. "She drives me nuts," he screamed, "and tries to dictate everything. I hate it! What in heavens do I do?" Once he was finished with what he had to say, we calmly asked him, "Tell us, who pays for everything in the house?" "Of course me," came the provoked answer. At that very moment, with a satisfied chuckle, we revealed the Bible of manhood to our man, "Then it's very simple dear friend. Go and tell her the golden rule of management. The one who

NEARLY 80% OF S&P 500 COMPANIES COMBINE THE ROLES OF THE CEO AND CHAIRMAN IN ONE PERSON

pays is the one who rules. No questions about it, whether in family, or in business! One company, one hero! Period!"

You could have bet all your pennies that at that moment, we must have sounded like the Thom(p)son twins. But really, is it too much to ask that wives the world over realise that this actually holds true globally? That in business as in households, you simply cannot have two people running the show! All current talk about having a CEO who is different from the Chairman is actually balderdash of the highest order. The research is unquestionable. The classic paper, titled, 'Chairman and CEO – One Job or Two?', by McKinsey's Paul Coombes and Northwestern's Simon C.Y. Wong, proves how combining the two positions "empowers a chief executive to act decisively..." Nearly 80% of S&P 500 companies combine the two roles in one person (as per a McKinsey study) – a proportion that has barely changed in the past 15 years. The brilliantly well referred study (...The Separation of CEO and Chairman [positions]...) by Brickley (Rochester), Coles (Arizona) and Jarrell (Rochester), affirms how "Empirical evidence provides preliminary support for the hypothesis that the costs of separation [of the roles] are larger than the benefits for most firms." A Spencer-Stuart report masterfully reports in its 2006 paper titled, 'Board Governance', that "splitting the roles of Chairman and CEO does not improve... the performance of the company. There is no evidence of economic gain..."

The splendid Christian & Timbers study, 'Rethinking the CEO-Chairman Split', shows how "stockholder returns were nearly 5% lower in European companies that implemented the split," when compared with companies that didn't, and how in US, "returns were 4% lower in companies with a separate Chairman and CEO." Booz Allen's 2004 report titled, 'The World's Most Prominent Temp Workers', nails it down that "separation of the roles of Chairman and CEO generally reduces returns to investors." Dr. M. Useem, Director of Wharton's Center for Leadership & Change Management, is more tempered when he writes that "research has shown that the performance of US companies in which the Chairman and CEO positions are held by different people is no better than that of firms in which those posts are held by the same person." From Michael Dell (Chairman, CEO, Dell) to Steve Jobs (former Chairman, CEO, Apple), from Warren Buffet (Chairman, CEO, Berkshire) to Osamu Suzuki (Chairman, CEO, Suzuki), from L. N. Mittal (Chairman, CEO, Arcelor Mittal) to Mukesh Ambani (Chairman, MD, RIL), owners of outstanding corporations the world over have had only one man running the show: themselves!

But then, the bigger question is, can one man really make that big difference to an organization?

Our answer is yes! If one man wants, he can create miracles especially when he has his vision going right and is possessed by that vision! But what if the team, for the lack of a better word, sucks? In our experience and research, we've seen that passionate CEOs with a never-say-die attitude have the wherewithal to even change the

attitudes and performance standards of teams that might have sucked.

Some examples we've come across stand out brilliantly.

THE LEAGUE OF INCOGNITO MAFIOSI

O. E. Graves was born way back in 1811, on a farm near Vermont, to a family in perennial financial trouble. Afflicted with poor health throughout his life, he moved to New York and worked as a mechanic in a railway workshop, where he understood the concept of railway safety brakes. Graves kept wondering why couldn't such brakes be used in elevators [which had already been invented]. His mechanic teammates kept dissuading him for his inane idea, trying to convince him that elevator lines were practically unbreakable. Despite all negative opinion, Graves conviction grew in his idea and in the belief that he individually could make the change. After years of struggle, and more of financial pecuniary, he invented the first elevator safety brake. In 1853, Otis Elisha Graves founded the world's first 'safety' elevator company, Otis, today the world's largest elevator company.

This man struggled to handle his doomed-from-the-start shoe business for many years. His invention was neither a product or a service. He invented a 'process' called General Electric! Neither was he Jack Welch, nor was he Thomas Edison [the founder, on paper at least]. His name is Charles Coffin, the man who convinced Edison that rather than simply having a 'GE', the company should depend less on individuals and more on self-replicating processes. Coffin understood that world-

class companies can succeed over a long term only if the concept of innovation is not restricted to singular people and only when top performing people find their replacement, and in hordes. Edison made him the first President of GE.

EMPIRICAL EVIDENCE PROVIDES THAT THE COSTS OF SEPARATION OF THE CEO AND CHAIRMAN ROLES ARE LARGE

Renowned management expert Jim Collins quotes, "While Edison was essentially a genius with a thousand helpers, Coffin created a machine that created a succession of giants." Today, the long dead and gone Coffin is rated by Fortune as Number 1 in the list of Ten Greatest CEOs of All Times!

This man used to see Star Trek like nobody's business. He was so enamoured by Captain Kirk's "Scotty, beam me up!" calls that he decided to find out how to invent such a phone. Despite everybody dissuading him [because of the unbelievably high costs involved], this general manager in a tiny electrical company kept working on the concept. On April 3, 1973, from a Manhattan street corner, using an apparatus that had no wires attached, he rang up Joel Engel, Head, Bell Labs research, to tell him, "Joel, I've beaten you in the race to make the first mobile phone." Martin Cooper, the inventor of the mobile phone, individually re-invented not only Motorola's history, where he worked, but of global telecom.

It is the night of September 25, 2000. This promising 23 year old Boston basketball player, who is a draft member of the 'NBA bench', is stabbed ruthlessly by hooligans. Medical reports show 11 lethal injuries to the back, face and

neck, enough to kill any man. Doctors work relentlessly through the night to save him. Just when they've given up, a do-or-die lung surgery unbelievably gets him breathing again. The man lives, but just... Devastated physically, the chances of his coming back are worse than impossible. Eight years pass. It's June 17, 2008. The judgement night of NBA Finals history. Banknorth Garden in Boston is more than jam packed. The totally unfancied Boston Celtics, who have never won the NBA Finals in the last 22 years, are playing against the second highest winners in history, Los Angeles Lakers [featuring legends like Kobe Bryant, coaches like Kareem Abdul-Jabbar]. The game finally ends. Lowly Boston Celtics have beaten LA Lakers by a margin of 131-92, the largest margin ever in a championship game. The captain of Boston Celtics is an unknown Paul Anthony Pierce. This is his first NBA Finals appearance in life. Though he scores only 10 points, he is surprisingly named the Most Valuable Player (MVP) of the NBA Finals, because of the openings he creates... Oh yes, they also comment that he's the same guy who was stabbed many times eight years back...

We call all these singular people The League of Incognito Mafiosi. We never knew their names, yet they kept working, steadfast in their beliefs, never giving up the belief in the power of their individual self... And that's why we believe that CEOs can actually be singular change agents for their corporations. With one decision, they can make or break the fortunes of their corporations.

Given this incredible importance of the CEO position, it's quite imperative that boards of directors globally understand that dividing the role of CEO and Chairman

into two individuals may well ensure negative returns to the corporation. Thus, the lesson is, unify the command centers into the individual who matters the most to an organisation.

WHILE EDISON WAS ESSENTIALLY A GENIUS WITH A THOUSAND HELPERS, COFFIN CREATED A MACHINE

...And then one fine day, the common friend of ours (the one with the wife problem, remember) phoned us back, and said, "Thanks a ton guys; your suggestion solved the issue." Although the words seemed positive, the chappie sounded quite sarcastic. He continued acerbically, "I told her that from now on, I'll decide everything. So I now get to decide what to wear, which channel to watch, what to eat... and even where to stay. Guys, she threw me out of the house! And guess what, she's a good friend of your wives, and she's already had a talk with them about your 'golden' advise..."

Drat!

5
RISK-TAKING BY CEOS

GUT FEEL: STAY HUNGRY, STAY FOOLISH!

This goes back to when we were at one of Luzern's top casinos; we were just about to place all our remaining money on a sure-shot winning bet! Well, you could put your money forecasting that the roulette ball would fall either on an even number or on an odd one! In the past five moves, the ball had always fallen on an even number, and this time, we were 100% certain that the ball would surely fall on an odd number, given our extensive knowledge of the law of averages. We were proudly and silently confident of the load that we were about to make... Well, we put all our money on that bet that night. Our gut told us to take that kind of a high risk!

Then again, aren't the world's most successful

AREN'T THE WORLD'S MOST SUCCESSFUL CEOS THOSE WHO TAKE HIGH RISKS BASED ON GUT FEEL AND INTUITION?

companies and entrepreneurs those who take high risks without flinching an eyelid, simply based on gut feel? Would Steve Jobs have been Steve Jobs sans his proven gut for supremely high risk moves? Isn't high-risk the only route to high achievement?

Well, the answer to this is both a yes and a no. Let's see if you can make out what we're alluding to.

Fred Smith received a 'C' grade [just escaped failing] in his college economics paper where he gave an overnight delivery business idea. "C was a very good grade for me," he later explained, as his gut told him the idea would work. He started FedEx! Eric Bonabeau in HBR says "the stories are certainly seductive," with Disney's Michael Eisner [who, "knowing his heart," pumped in millions into the killer show 'Who Wants To Be A Millionaire'], George Soros [who sensed "in his bones a big shift in currency markets and... made a billion-dollar killing"] and R. Pittman [who "had a vision... while taking a shower," and created AOL] leading the gut-wrenchers gang! A. Hayashi, Senior Editor, HBR, writes, "Obviously, gut calls are better suited to some functions [strategy, planning, PR, marketing...]." Surely, as Chuck Porter, creator of the historic BMW Mini campaign, comments, "When it comes to creating advertising, we don't research it!" Supporting this thought, Prof. William Duggan, Senior Lecturer in Business & Management, Columbia Business School, had written in Strategic Innovators, a Planman

Media publication, that, "Ask yourself this – when do you get your best ideas? I have asked this question to at least 3,000 people over the past two years, most of them business executives. The most common answer? The shower. Others answer: While driving, falling asleep or in the gym. Not a single person has answered, in a formal brainstorming meeting or using any of those methods like thinking hats. And what came to them in the shower was not a wild and crazy idea, but a clear thought. It made good analytical sense. And it was creative. They did not turn off the analytical side of their brain and turn on their creative side. Modern science now understands what happens in your brain at that moment. You get a flash of insight. Neuroscientists no longer believe that there are two sides of the brain that work in two different ways. Analysis and creativity work together in the whole brain, to give you a creative idea that makes analytical sense in a flash of insight. This is what we call intuition - gut feeling. And once we understand how these flashes of insight work, we see how to replace our conventional procedures for strategic analysis, strategic planning and creative brainstorming with simple, natural methods that harness the flashes of insight of everyone in the company."

But it is not that intuitions are purely figments of irrational imagination. Professor Smith [Surrey] and Erella Shely of the most respected Academy of Management Executive prove that intuitive decisions are viewed by executives as "expertise that has been built up... and influences conscious thought and behaviour." The Burson Marsteller CEO Survey, 2006, shows how "no effective

CEO is driven solely by numbers." The survey further proves that 71.4% of high-revenue-company CEOs believe that "intuition and gut feeling" are very influential in guiding their decision making [compared to 54.8% who depend on "analyst reports"]. The PwC Global Data Management Survey 2004 amusingly shows that globally, companies in fact feel low level of confidence in their own data, and "an even greater degree of scepticism over outside data."

In his now famed commencement address to Stanford students, Steve Jobs revealed how his mother ["a young, unwed college student"] rejected him and put him up for adoption, how the folks who were supposed to adopt him backed out at the last moment, how even his 'final' parents weren't graduates, how he himself dropped out after joining college, how he would later sleep on dorm floors returning Coke bottles "for 5 cent deposits" to buy food, how he would "walk 7 miles across town every Sunday night to get one good meal a week at the Hare Krishna temple." And how he loved it all, as, much of what he "stumbled into" by following his "curiosity and intuition, turned out to be priceless later on." He said, "You have to trust in something – your gut, destiny... This approach has never let me down... And most important, have the courage to follow your heart and intuition... Stay hungry, stay foolish!" In Fortune's March 17, 2008 issue [where his company was ranked The World's Most Admired in 2008], he said, "We do no market research. We just want to make great products."

In other words, the part answer to the question we asked at the start – "Do successful CEOs take high risk

decisions based on gut feel?" – is yes. And that part is about gut feel. Yes, the world's most excellently performing CEOs do base their decisions on instinctual perspectives. But then, and this is the most important part, we must make it clear that working on gut feel in no way means taking high risks blindly or deliberately ignoring research! As we said earlier, intuitions are not pure figments of imagination. They are a result of expertise that has built up over time!

71.4% OF CEOS OF HIGH REVENUE FIRMS BELIEVE THAT "INTUITION AND GUT FEELING" ARE VERY INFLUENTIAL IN THEIR DECISIONS

THE NO A$#H%LE RULE!

'The No A$#h%le Rule?', which we've also alluded to in the Epilogue, is a 2007 best-seller written by the Stanford professor Robert Sutton, who says that in business, you shouldn't take high risks like an a$#h%le!" And that is the truism being peddled by us.

The famed David McClelland had proven way back in 1961 that high achievement motivation was related not with 'high-risk' taking but, surprisingly, with 'moderate-risk' taking. But that was 1961. What about now? Professor T. J. Kamalanabhan of Universiti Telekom, Malaysia and Dr. D. L. Sunder (IIT Madras) concluded in their noted 1999 paper, 'Managerial Risk Taking: An Empirical Study', that "considering managers are aware of their organisations' resource constraints, moderate risk taking is eminently rational." But seriously, aren't entrepreneurs supposed to be living on the edge of top-end risk?

SUCCESSFUL ENTREPRENEURS ARE MODERATE RISK TAKERS, NOT GAMBLERS; THEY TAKE INFORMED DECISIONS

Dr. Stewart (Clemson University) and Professor Carland (Western California University) in their famed paper, 'Risk Taking...And Entrepreneurship', concluded that the results of past research had failed to prove that entrepreneurs take any higher risks than managers. For that matter, the American Management Association's five commandments of great leaders includes a pristine second commandment – "Great leaders are informed risk takers... They act decisively, not recklessly, to maximise 'lucky' breaks!" The Australian Institute for Commercialisation's golden rule book of successful entrepreneurs reads: "Successful entrepreneurs are moderate risk takers, not gamblers."

And why not, as shown by the pan-global benchmark 2005 global CEO survey of KPMG, 'Risk Taker, Profit Maker?', which found that the top two factors leading to reduced margins were 'Poor Forecasting' and 'Poor Risk Identification'! The world famous Protiviti 2007 US Risk Barometer's global Fortune 2000 gave stark findings. The 'Risk Appetite' of global firms – which already was moderate – is further falling, and how! In 2007 itself, even compared to one year before, this factor fell from 5.12 to 5.07 (on a scale of 1 to 10; 10 being the highest-risk level). 'Organisational Risk' too fell from 5.62 to 5.23; and 'Industry Sector Risk' fell from 6.07 to 5.76! This 'moderate-risk' orientation has clearly come because of an increased risk management focus. The

classic E&Y 2006 survey ('Risk! Let's Talk!') shows how a mammoth 66% of leading global firms plan to increase risk management investments. The fact is, howsoever competent a CEO might be, high-risks cannot be handled well enough. The Grant Thornton US Business Leaders Survey (11th edition) shows how at best, only a puny 19% of CEOs were confident of excelling while facing high risk choices...

In summary, don't disregard gut feel, yet, take only moderate risk – that's the mark of the high achievers group.

So then what happened that night at the roulette table in the casino, where all our money was on the ball landing on an odd number? Statistics be damned, we were sure our command over the topic of probability couldn't be wrong! Well, we'll be honest here. When the moment came, the ball rolled across the table, slowed down, and finally landed... on zero! They said it's the rarest of rare instances when this happens! That we left with our clothes on after losing everything on that table was a miracle. Anyway, like we mentioned, the book is called "The No A$#h%le Rule". It's available in all leading book stores. Fortune, in one of its issues, has covered it too. We've read it page to page... Ah yes, just for information, we just don't visit casinos anymore!

6
COMMUNICATE! REGULARLY!

THE IMPORTANCE OF CEO COMMUNICATION AND HOW MUCH TIME SHOULD A CEO 'WASTE' ON INTERNAL MEETINGS...

Effective leaders communicate thoroughly, exhaustively and most regularly to their employees to retain them during slowdown. Ineffective ones, don't!

BCG's report Creating People Advantage In Times Of Crisis says that 'clear communication' during slowdown is the trademark of an outstanding leader. Business Week's 2008 report Recession Strategy documents that "communication is the key" to retain employees. Clearly, if there's one strategy you need to implement authoritatively to get the bedazzling best out of your

THOSE CEOS WHO MAINTAINED GREATER COMMUNICATION WITH EMPLOYEES HAVE HIGHER "REAL AUTHORITY"

employees, it's putting into place a highly structured process of communication. Feng Li, Michael Minnis, Venky Nagar (University of Michigan) and Madhav Rajan (Stanford), in their May 2009 paper (Formal and Real Authority in Organizations: An Empirical Assessment), confirmed that those CEOs who had greater communication levels had higher "real authority".

Jim Collins writes that General Electric's Charles Coffin (about whom we mentioned in chapter #4; Fortune magazine's #1 CEO in the list of Ten Greatest CEOs of All Times!) "created a system of genius that did not depend on him – he created the idea of systematic management development." Coffin practiced communication as a religion to transform mediocre performing employees into fantastically valuable ones.

This is what Dr. Sheila Dikshit, Chief Minister of Delhi told The Human Factor (a Planman Media publication) in the Fall of 2010, "For me, a leader is a person who people believe is capable of taking risks. The greatest requirement for a leader, however, is 'communication'. If you are unable to communicate, you cannot lead or manage. It is important to get the right communication every time, be it while meeting a widow about her grievances or a rich businessman."

Dr. Jagdish Khattar (the man who built the most powerful automaker called Maruti Suzuki; he is currently the CMD of Carnation Auto India Pvt. Ltd.) believes

passionately in the power of communication with employees and colleagues. Till the time he was there heading Maruti Suzuki, there was rarely any strike that had ever been reported in Maruti's plants. He once mentioned to our editorial team, "I even liked hanging out in office, sipping coffee and chatting with my employees". Since he has moved out, Maruti Suzuki has seen a spate of strikes and lockouts on a scale never experienced in the firm's history.

BUT SHOULD CEOS WASTE TIME ON "INTERNAL MEETINGS"?

Apple's success is not hard to interpret. Same was the case with Steve Jobs, when you talk about anything. After the music industry-defining iPod, the smart phone segment-winning iPhone, the tablet market-establishing iPad, "Apple=innovation" become the new equation in the world of technology. And all this is not about to change soon. Despite the continuing dispute over Tim Cook's competence [to fill Jobs' shoes], the company's shareholders have been on the right side of celebrations. Today, Apple has become a $342.96 billion-worth obsession for investors (m-cap on Nasdaq as on November 22, 2011), having grown at an annualised rate (CAGR) of 45.8%, making it the fastest wealth-creating corporate entity in the world over the past decade (between January 1, 2000 - January 1, 2011).

Innovation yes, but Apple is less about processes than it is about people – people who make machines, people who get fired, and people who have the final word at the end of a disguised six-sigma activity. But these are

people who work in an atmosphere of discipline thrust upon them – wearing formal attire to work (unlike the bathroom slipper-and-bermuda casual culture of Adobe & Google) and compulsorily attending internal meetings. In these two respects, the black turtleneck-wearing Jobs used to maintain a policy of no exception, whether it be the new recruit or his then heir-apparent at Apple. It is perhaps the very reason why despite only a handful of 100 chosen employees being given the opportunity to spend a two-day workshop with Jobs (when Jobs was alive) in a secretive location every year, everyone across the board at Apple still breathes in an air of equality. How did Apple outgrow everyone else? [In the past decade, the company's topline grew by 717.4% to touch $65.23 billion in FY2010, while its bottomline increased by 1,677.2% to $14.01 billion.] The ruthless corporate culture that Jobs had nurtured is the reason.

As much as Jobs found no justification in the logic of paying people cash for not falling ill, he was absolutely convinced that internal meetings with employees helped matters regarding the company's set goals, product lines, costs and performance. With Jobs, it came in the form of marathon Monday meetings at the company's headquarter at 1 Infinite Loop.

This is what he told Fortune magazine in February 2008 about how important internal meetings were to him and everyone at Apple, "So what we do every Monday is we review the whole business. We look at what we sold the week before. We look at every single product under development, products we're having trouble with, products where the demand is larger than we can make.

JOBS WAS CONVINCED THAT INTERNAL MEETINGS WITH EMPLOYEES HELPED WITH RESPECT TO THE COMPANY'S GOALS

All the stuff in development, we review. And we do it every single week. I put out an agenda – 80% is the same as it was the last week, and we just walk down it every single week. We don't have a lot of process at Apple, but that's one of the few things we do just so all stay on the same page." To understand why they were called 'marathon meetings', you must note that there were 21 Senior VPs at Apple who reported directly to Jobs (Jobs was still the Chairman of Apple Inc. till he passed away), besides others like Cook, Jony Ive and Phil Schiller – names that were and are familiar beyond Silicon Valley. So respecting the voice of someone like a Craig Federighi (Sr. VP, Software Engineering, who of late has been working on new feature enhancement transition for the new Mac OS X: Lion, to pump new life into the declining sales of Mac OS desktops) or a Scott Forstall (Sr. VP, iOS Software, who would always argue for a higher budget allocation to support the ongoing project to come up with a new version of iOS – the latest is iOS 5.0), would mean tens of minutes of ear-filling patience on the part of the core team. But Jobs did not mind that.

He knew that his company's report card had improved dramatically in the past decade only because he had not been scared to give news during team meetings, especially the bad ones. That's the solution to correct things that have gone wrong or avoiding things that could.

Jobs never shied away from dropping shells and

otherwise not-so-common shockers during regular weekly meetings. Call it tradition. Name a project and you have an instance. One which everyone at Apple would remember comes to mind. One fine Monday morning in the autumn of 2007, Jobs walked into a meeting with his design team and declared, "I just don't love this. I can't convince myself to fall in love with this. And this is the most important product we've ever done. All this work you've done for the last year, we're going to have to throw it away and start over, and we're going to have to work twice as hard now because we don't have enough time."

He was referring to the enclosure design for the first iPhone due to be launched in about a month from then. As any of the 50-odd who attended that meeting at Apple will confess forever – it was unbelievable that this man had the heart to push the reset button at such a late stage. But they all volunteered to make it possible. Result: they re-created the way the first three versions of iPhone would look.

There is another incident which proves another aspect of Jobs' team meetings – the bombs. (and quasi-abuses) CEO Jobs would use to shout at and humiliate individuals or a group of insiders during meetings. In the summer of 2008, following the failure of MobileMe (which was supposed to become the new darling of corporate customers who loved their BlackBerrys), Jobs blasted-off the entire team that created MobileMe in the Town Hall audi in building #4 of the company's campus. "Can anyone tell me what MobileMe is supposed to do?" Jobs asked. When someone gave a logical answer, he retorted,

"So why the f#<>k doesn't it do that?" The next 30 minutes, Jobs generously rebuked and abused the lot. "You've tarnished Apple's reputation. You should hate each other for having let each other down," said Jobs.

"FOR EVERY 1% EXTRA TIME SPENT WITH AN INSIDER, PROFITS PER EMPLOYEE ADVANCED 1.23%," HBS, LSE REPORT

Worse, after the verbal volley, with immediate effect, Jobs replaced the head of that project. What Jobs did is a lesson for CEOs to emulate. Hold regular meetings and punish the guilty accordingly, and publicly. Never mind the broken hearts – if it does good for your stock and your company's coffer, sound them off! Here is the lesson: If you thought that giving the employees a stick in public was unethical, think again. That is not what successful leaders like Jobs have thought. Today, thanks to him, Apple is the World's Most Admired Company for the fourth year in a row, as per Fortune's ranking for 2011 obtained through a survey of business leaders around the world.

There are other CEOs who follow the scripture that advocates internal meetings to the hilt. One of them is Sam Palmisano, the 60 year-old Chairman of IBM. When Palmisano took over IBM as CEO earlier, the Big Blue giant was losing ground fast. Revenue was declining and hardware no longer seemed the way. Keeping the long term in mind, Palmisano started engaging himself in gruelling long sessions with IBM's researchers, during which he urged his employees to "track and shape the tech trends that will define the world a decade or more

SUCCESSFUL LEADERS BELIEVE THAT REBUKING EMPLOYEES IN PUBLIC IS THE BEST WAY TO ENSURE IMPROVEMENT

later." Sweeping troubling matters under the carpet is not his style, and the proof of this are the many hours of long discussions that he holds with IBM's lab directors, with whom he discusses corporate strategy and the future of IBM's technology. And to give you an idea of how unkind he can be during the interactions, his lab directors confess that showing up unprepared is the worst thing that you could do, because Palmisano values his own viewpoints.

Having shed its hardware deadweight at the right time (in 2005) despite the world opposing his move ["Services was seen as a low profit business when we got into it. We were criticised," he tells Forbes], IBM has today become the second most valuable brand in the world (just behind Coca Cola) with a valuation of $64.72 billion (Interbrand 2010), and is the Most Admired IT Services Company in the world as per Fortune.

From meeting 8,000 IBMers in Beijing's Great Hall of the People to discussing growth with his employees at the Thomas J. Watson Research Center in New York on the company's 100th birthday, Palmisano travels 200,000 miles a year to meet his employees. In fact, he has pumped-in the habit of meetings into the culture of IBM. While talking about uncountable pre-sales preparation meetings at IBM, Mike Karels, a former employee of IBM notes, "I cannot tell you how many meetings we had, before meeting with the customer…" IBM's m-cap has risen around 60% since he took over as CEO in March 2002.

The company today has an m-cap in excess of $200 billion ($208.84 billion on Nasdaq, as of October 1, 2011). This CEO makes himself heard through what is called "meetings with staff", expressing both his pleasure & displeasure at will. He knows it works.

Leaders have to appreciate that even with the right team in place, leaving the organisation to prosper on autopilot sans engagement with the employees is wrong. This would mean that bosses should necessarily meet their SBU heads and other employees at least once a week (the higher the frequency, the better), and give them an honest feedback on their respective performances – good or bad, encouraging or shameful; whatever!

In their Fall 2007 paper titled, 'The CEO's role in leading transformation', Carolyn Aiken (Consultant at McKinsey Toronto) and Scott Keller (Principal at McKinsey Chicago) conclude, "Typically, the first order of business is for members to agree on how often the team should meet, what transformation issues should be discussed, and what behaviour the team expects and won't tolerate. Successful CEOs never lose sight of their responsibility to chair review forums. Through these, they identify the root causes of any deviations, celebrate successes, help fix problems, and hold leaders accountable for keeping the transformation on track."

The reason why spending time interacting with employees is critical is because the role of a CEO is also one that of a reinforcement agent. A. G. Lafley, former CEO of Procter & Gamble (the current #5 company in Fortune's Most Admired Companies ranking 2011) is an example. When Lafley took over in 2000, P&G was a ship

sailing amidst rocks. When he handed over the baton on June 10, 2009 (to become the Chairman of the board), P&G was its powerful self again. So how did Lafley choose a new era over a lost decade? A hard taskmaster, Lafley has always been an advocate of employee engagement through meetings and one who has used words of praise and denigration alike. After the initial meetings with existing employees, Lafley understood that he had to re-do the consumers-employees-shareholders loop and alter management and cost structure to a great extent. First, he reduced R&D dollars greatly. Secondly, he re-jigged the company's operational framework.

Through subsequent interactions with employees at various levels, he impressed upon them the need to keep that framework in mind, while taking all important decisions. Also, he put some new people in charge of some divisions. He made these changes only after many meetings. But being the hammer-hand that he was, he still had his choice of candidate on top. For instance, he appointed Deb Henretta as the new head of the declining baby care products segment, despite no other board member supporting her case. Reason – they felt she had no idea of how the machines worked. But Lafley knew her reputation for brand-building and marketing. Within two quarters, the segment's sales began climbing. Later, she even became the head of P&G's Asia operations. In his June 2009 Harvard Business Review paper titled, 'A. G. Lafley, Judgment, and the Re-do Loop', Dr. Noel Tichy, Prof of OB & HRM at the Ross School of Business (University of Michigan) concludes, "Lafley invited his top team to a meeting where each had a chance to make

SAM PALMISANO, CHAIRMAN, IBM, IS LEGENDARY FOR HOLDING INNUMERABLE MEETINGS

a case for a favoured candidate over Henretta. He took their input seriously, but at the end of the day he still believed he'd made the right choice. He then explained his reasoning in detail – solidly grounded in his consumer-focused story line, which he had relentlessly drummed into their heads. The outcome may not have satisfied everybody."

But what was most important was that in his plan of action to take P&G ahead through marketing, Lafley moved along with his team. Talking about the need for seniors to spend time with subordinates over internal team interactions, Lafley once said, "You need to understand how to enroll the leadership team. As a rule of thumb, 80% of the team's time should be devoted to dialogue, with the remaining 20% invested in being presented to. Face-to-face meetings, as opposed to conference calls, greatly enhance the effectiveness of team dialogue. Excruciating repetition and clarity are important – employees have so many things going on in the operation of their daily business that they don't always take the time to stop, think, and internalise."

So, did Lafley's meet-and-discuss strategy work? Sure it did. Under Lafley, P&G gave many innovations to the world of consumers (like washing detergent that could be used in cold water, toothpaste that whitens your teeth et al), which showed their effect on the company's financials as well.

Numbers prove why this turnaround story was as

IT WAS THE SURPRISE PLANT VISITS (AND THE GRINDER SESSIONS THAT FOLLOWED) THAT MADE JACK WELCH FEARED

much about cash as it was about exciting tales that were born in this once-divorced, twice-married CEO's "huddle room" on his 11th floor office in Cincinnati – during his tenure, topline increased by 109.02% to touch $79.70 billion (FY2009) and profits increased 257.45% to touch $13.44 billion. And under his decade-long reign, the company's market value appreciated by 136.49% to touch $175.4 billion – enough to convince shareholders that his principle works.

Research also proves why spending time with insiders helps. In a March 2011 research paper contributed to Planman Media's publication Business & Economy, titled, 'What do CEOs do?', Professors Raffaella Sadun (of Harvard Business School), Luigi Guiso (of the European University Institute), and Oriana Bandiera & Andrea Prat (of the London School of Economics) conclude after analysing the timetable of 94 European CEOs of major corporations that, "The vast majority of a CEO's time, some 85%, was spent working with other people through meetings… while only 15% was spent working alone. Of the time spent with others, CEOs spent on average 42% percent with only insiders; 25% with insiders and outsiders together; and 16% with only outsiders. Likewise, time spent with insiders was strongly correlated with productivity increases. For every 1% gain in time spent with at least one insider, productivity – for example, profits per employee – advanced 1.23%." What

was fantastic was something else that these researchers found. They wrote further, "Less reassuring, however, was that the time CEOs spent with outsiders had no measurable correlation with firm performance."

In other words, it pays to spend time with insiders; and not necessarily for time spent with outsiders.

Even Prof John P. Kotter of HBS proves the same through his June 2009 paper titled, 'What Effective General Managers Really Do', "Successful General Managers [GMs] spend most of their time with others. The average General Manager spends only 25% of his working time alone, and that time is spent largely at home, on airplanes, or while commuting. Few spend less than 70% of their time with others, and some spend up to 90% of their work time this way. They spend time with many people in addition to their direct subordinates and their bosses. General Managers ask a lot of questions. In a half-hour conversation, some will ask literally hundreds of them."

We know that there are some who believe that timings of meetings should always find a spot on the annual calendar and that last minute appointments and surprise calls only show indiscipline on the part of a CEO and the organisation. Wrong says Prof Kotter. Writes he, "Unplanned and unstructured activities help General Managers address two critical challenges: figuring out what to do and winning widespread cooperation. The key tools for meeting these challenges are flexible agendas and broad networks of relationships. With flexible agendas, General Managers capitalise on unanticipated opportunities that emerge in day-to-day events. With broad

P&G'S LAFLEY, "FACE-TO-FACE MEETINGS, AS OPPOSED TO CONFERENCE CALLS, GREATLY ENHANCE EFFECTIVENESS"

networks, General Managers can use impromptu encounters to exert influence far beyond their chain of command." Team meetings make even a process-oriented company like GE versatile and strong to take on challenges of change; and the more dynamic the timings, the more your employees are on their toes. That keeps the organisation awake 24x7. What better?

It was the surprise plant visits (and the grinder sessions that followed) and the feedback notes that made Jack Welch feared and GE revered as a process-oriented, people-centric company. Welch used meetings & review sessions to advantage. Every January, he had meetings with GE's top 500 executives in Boca Raton (Florida), and every month he took teaching sessions at Crotonville.

Also, each April, he undertook an annual review of employees of the executive level and above. These were called the 'Session C' meetings, which ran for 20 days. Everyone knows that these meetings (and many more) gave Welch the flexibility to mould and change GE's strategic direction, and to discover talent. Discussions over lunch with managers (even many levels junior to him) were a common sight. 3,592.3% increase in m-cap (from being a $13 billion maker of appliances into a $480 billion conglomerate), 993 acquisitions (worth $13 billion) and a spin-off of 408 businesses (for $10.6 billion) – all this even Welch could not have managed in two lifetimes as CEO (forget two decades) had he not been fanatical

about intra- and inter-team meetings. It has been eleven years since Welch left GE. But despite losing 59.61% of its market value since then, the brand is still amongst the top ten most valuable brands in the world ($50.31 billion, as per Millward Brown Optimor 2011). Beat that for the magic called "internal meetings".

During a conversation with one of Planman Media's publications, 'The Human Factor', in July 2011, renowned Coach and Academician, Prof. Ken Moore (Adjunct Professor at State University of New York at Albany and at the Union Graduate College) besides speaking on the importance of internal meetings, mentioned that there were some necessities of a successful internal meeting that CEOs need to keep in mind. He says, "First, once you have decided to hold a meeting, then you must be crystal clear on its objective. Write down on a piece of paper what you want to discuss and what you hope to achieve from the discussion. Ask yourself two basic questions: what is it that I hope to achieve with this meeting, and what would be the consequence of not holding this meeting.

"More than a few of the managers in my seminars have indicated that the weekly manager's meeting or the division head's meetings are the most frequently abused time wasters. They usually exist out of habit or tradition and often fail to justify their existence. Because they occur every week, the participants settle into the same routine with little thought as to the content or conduct of the meeting. Second, prepare a logical sequence of items to discuss, and place a time limit on each. This sequence is usually called an agenda, but you must be careful that

R. TOWNSEND, THE LATE CHAIRMAN OF AVIS RENT A CAR, EVEN SUGGESTED THAT ALL MEMBERS KEEP STANDING UP DURING MEETINGS

it does not become just a crib sheet for the chairman. It is a detailed brief from which all others work. It will define the subject area, the amount of time allowed for the discussion, and the objective. It can also list the major topics in the subject area relevant to the objective. Keep in mind that the amount of time spent on a subject should be determined by its importance, not its urgency. Third, invite only those who can contribute to the objectives of the discussion.

"Let them know as far in advance as possible what is being discussed, why it is being discussed, and what you hope to achieve. As chairman of the meeting, you must anticipate the needs of the participants as well as their own time constraints and ensure that they are met. You must also inform the people what they are expected to contribute. Fourth, ensure that the meeting is formally structured and controlled. Since we are not talking about a free-wheeling, brainstorming type of meeting where just about anything goes, a good chair will allow for five basic steps: 1. State the proposition clearly and concisely in terms that everyone will understand; 2. Produce the information that is relevant to the subject; 3. Have structured discussions about what the information proves; 4. Come to a conclusion upon which the majority is in agreement; and 5. Decide upon the action. Fifth and final, the chair or his/her designee must summarise and record the discussion in writing. If any action is taken,

include the name of the person responsible and the time frame within which it is to be completed. Ensure that all participants receive a copy of this report. Finally, when all these steps are taken and you still find yourself bogged down by trivial items, consider the advice by Robert Townsend, the late chairman of Avis Rent A Car and author of Up The Organization on how to keep meetings on schedule. He suggests that all participants stand up for its duration!"

Lesson: If you want to see a real transformation sweeping through your organisation, make internal meetings mandatory and extremely regular. Enforce this law and witness change happen!

7
THE POWER OF MBA

MBA EDUCATION: BUT JACK WELCH WAS NO MBA!

Was he? No, he wasn't! And still isn't, for records! Jack, apart from being considered the most outstanding manager ever (he was rated the Manager of the Century by Fortune), also led one of the most successful corporations ever (General Electric), which ended up contributing more to shareholders than any other corporation in the history of global capitalism (GE's m-cap increased from $14 billion in 1981 to $410 billion in 2001, when he resigned). Come to think of it, did not even Bill Gates, the richest man ever, drop out of Harvard? In short, do companies that hire 'non-MBAs' perform better than those which don't? Do firms having the ubiquitous 'non-MBA CEOs'

'MBA' CEOS ARE ASSOCIATED WITH HIGHER OPERATING RETURN ON ASSETS COMPARED WITH NON-MBA CEOS

achieve more than those having MBA leaders?

A majority of Fortune 500 firms have traditionally avoided hiring MBA CEOs. Professor Harry Mintzberg, one of the noted management authors, in 2005, regurgitated a similar thought process when he said, "MBA programs train the wrong people in the wrong ways with the wrong consequences..." Guy Kawasaki, a known management author and himself an MBA, threw up much worse with respect to entrepreneurial firms, "I don't think an MBA matters very much..." How would you describe such a distinct playing-to-the-gallery thought process? We have one word for it... Unacceptable! It is unbelievable that in today's world, there could be anyone supporting such a blunderingly hollow 'anti-MBA' viewpoint.

It perhaps took the might of MIT's Sloan School of Management to put the ultimate seal over legions of unlettered MBA opposers. In the path-breaking research titled, 'Managing With Style', MIT Professors Marianne Bertrand and Antoinette Schoar – after undertaking a most massive research over 7,500 of the world's leading corporations – proved most conclusively how companies with MBA CEOs perform better than those having non-MBA CEOs. The report statistically shows how "the most interesting finding is the positive relationship between MBA graduation and corporate performance."

In fact, CEOs holding MBA degrees are associated even with higher operating return on assets, one of the topmost factors to determine corporate efficiency.

Not only are such MBA CEOs "more aggressive" and "responsive to the presence of growth opportunities," they also have "a stronger tendency to engage in diversification moves," proven to be extremely critical factors to increase shareholders' wealth. In fact, despite age old inhibitions even in Fortune 500 corporations, the benchmark 2006 survey titled, 'Corporate Leadership', by the exemplar London Chamber of Commerce shows how the proportion of MBA CEOs in Fortune 500 giants is continuously increasing to now reach a very promising 42%; female CEOs are even better at 45%.

During a conversation with Discover The Diamond In You in August 2011 (a Planman Media publication), Dr. Stephen Long, Renowned Leadership Coach to Fortune 500 Companies and NFL Teams and a Former Trainer at the US Air Force Academy, said that "Management education teaches CEOs the ultimate [that] there is in managing a company and managing employees. It is not important. It is necessary. Being an MBA makes you wiser and helps you see the world of business differently!"

The final word in HR researches, the Spencer Stuart 2008 Route To The Top survey, corroborates this and shows how a smashing 62% of all S&P 500 CEOs now have at least one type of an advanced degree (MBA, Master's, Doctorate etc). In fact, even at Bachelor's level, the BBA qualification, after the engineering degree, was held by the maximum number of S&P 500 CEOs. Compare this to the fact that in 2005, only 35% of Fortune 100 CEOs had MBA degrees. According to the NYSE CEO Report 2010, a thumping 75% and above CEOs believe that their corporation's 'Management Team' will have

the maximum impact on their sales and profits growth through 2011. At such a time, it is unbelievably ludicrous that any corporation can believe that hiring management illiterates rather than MBAs could provide stupendously dynamic growth. The world's best performing firms thankfully don't think so! CEOs of 7 of the top 10 Fortune behemoths are management graduates. That's 70% for you. Did we hear somebody say Jack and Bill had no MBA? To set the records straight for the innumerably vain soothsayers of the anti-MBA bandwagon, perhaps there's nobody else in the management world who fanatically supports recruiting MBAs the way Jack Welch (an engineering M.S and Ph.D) has done, a fact he has accepted even in the columns he used to write in our magazines!

Eat this – GE and Microsoft have been consecutively ranked amongst the world's top twenty MBA employers (Fortune Top MBA Employers 2010 Survey). By the way, even Jeff Immelt, Jack's successor at GE, is an MBA (from Harvard), and Steve Ballmer, the CEO of Bill Gates' Microsoft, attended the Stanford Graduate School of Business! Oh, before we forget, while Melinda Gates (Bill's wife) is herself an MBA from Duke, the month of June 2007 also saw Bill Gates trudging back grudgingly to Harvard to receive his long lost degree... So our most beloved, non-MBA CEOs, there's one thing you should start falling in love with quite fast... The door! You're going to see quite a lot of that very soon...

8
PAY-PERFORMANCE

LOSERS AT STOCK MARKET, WINNERS ACROSS BOARDROOMS

Petty scandals are found aplenty in rich nations. It is no different in business; the synonymity is ironically nostalgic. The correlation is much the same with big scandals too. And much like activists raise their voices against one such prevalent scandal in politics – the fat perks doled out to politicians – there is a group that feels no different about CEOs of multi-billion corporations. They are right. Despite criticism about lack of corporate governance for years, by large, CEOs are swept into offices with a seven to eight figure sign-up membership. Only problem is – before their disappointing terms are over, the boardrooms are filled with the noise of who "could"

UNDER IMMELT, GE HAS LOST HALF ITS VALUE (M-CAP OF $158.25 BILLION AS ON NOVEMBER 23, 2011 – A FALL OF 62%)

be presiding over the next company dinner. The failed CEO departs, having stripped shareholders to the bone, and having collected millions (or billions) in fat paychecks & belly-bloating perks!

There are many names which surface in this debate of a mismatch between executive compensation and performance in the modern world. The sixth largest US corporation (in terms of revenues for 2010), General Electric, is one. When Jeffrey Immelt took over as CEO on September 7, 2001, everyone was hopeful. He was handpicked by Jack Welch, to lead GE into becoming the new global powerhouse conglomerate of the new millennium. GE was then valued at $415 billion, and was comfortably ahead of the #2 Microsoft (which stood at $335 billion). The company's stock was trading at $42 a share on the NYSE. Under Immelt, the company has lost half its value (m-cap of $158.25 billion as on November 23, 2011 - a fall of 62%), and its share trades at just 36% (at $14.99 as on November 23, 2011) of the level at which it did a day before he assumed office. The mistakes he made could be described as "basic" as far as Welch was concerned. Welch had made it clear that a GE CEO had only two tasks – allocate the right amount of capital in the right places, and choose the right people. Talk to GE trackers, and they point to two critical mistakes that Immelt has made all through his term. Those very two.

When Immelt took over, GE had $42 billion of capital

invested in it. By 2009, this had increased to more than $163 billion. The problem was: GE Capital (GEC – which was Immelt's top bet) had also borrowed hundreds of billions separately. What spoiled the party was that with GE Capital under-performing, the return fell much below the cost. And the value destroyed is there for the world to see. Immelt had bet too big on making GE a "diversified financial entity". After many wrong acquisitions and untimely investments on businesses of the future (like green energy), today, GE carries a debt load of half-a-trillion dollars – 232.9% more than its FY2010 topline. So how does GE reward Immelt? Actually, he has earned quite a gunny bagful. In the past ten years, Immelt has taken home $194.88 million as compensation, making him one of the most overpaid bosses in corporate America. Translation: for every $1 he earned during his tenure, he destroyed GE's m-cap by $1,301.62.

As per the 2010 Forbes' Special Report on CEO Compensation (a study of the top 500 firms on the S&P, ranked according to CEOs' efficiency towards returns to shareholders' wealth), despite earning millions, Immelt was ranked 'second-last' on the "Efficiency" parameter. Question is – did he deserve the pay he received? [Apparently, a combination of poor performance and high pay also makes you a favourite in the Obama camp. Despite better CEOs around, it was announced on January 21, 2011, that Immelt would head the economic advisory council, The President's Council on Jobs and Competitiveness, a board earlier lead by former Fed Chairman Paul Volcker.]

Immelt is not the only one living his well-cushioned

dreams in the boardroom of America Inc. at the cost of his investors' dimes. Our favourite punching bag is billionaire Steven Ballmer, CEO of Microsoft Corporation, who became the only non-owner employee (after Coca-Cola's Roberto Goizueta) to become a billionaire based on stock options. He is currently ranked at #46 on the 2011 Forbes' World's Richest People list, with an estimated wealth of $14.5 billion. Ballmer, who has taken home more than $35 million in direct annual compensation since he took over in January 2000, has seen Microsoft's m-cap reduce by 62.54% - from $556.80 billion to $208.54 billion, as of October 1, 2011.

Similarly, Howard Schultz, CEO of Starbucks Corp., took home $127.99 million in the past 3 years, but during this period, the company lost 13.94% in m-cap – and he currently writes for 4Ps B&M, one of our magazines. Michael Dell, who made $61 million during the past 5 years (besides the $4.03 billion in stock holdings), ensured that his shareholders got slimmer by 58.9% (Dell's m-cap today stands at just $25.80 billion; as on October 1, 2011). Dell was once the world beater in selling PCs (it was #1 till early 2006). No more. There are two reasons for this pay-performance mismatch – competition and lack of long term focus by the company mangement, as explained by Kenneth Feinberg, who was formerly, Special Master, September 11th Victim Compensation Fund and is currently a part of the regulatory body that regulates TARP executive compensation programmes at the United States Department of Treasury. Ken told The Human Factor in August 2011, "The major roadblock among competing companies when it comes to reform

STEVE BALLMER HAS TAKEN HOME MORE THAN $35 MILLION WHILE SEEING MICROSOFT'S M-CAP REDUCE BY 62.54%

of compensation practices is 'competition'; the concern that if one company adopts certain restrictive compensation rules, it will be at a competitive disadvantage in its ability to retain quality personnel. This is the argument heard again and again... Over time, there has been a direct link between share price rises and CEO compensation. There was too little attention paid to longer-term growth; instead, short-term immediate gain was viewed as a priority. Compensation structures emphasised immediate profitability at the expense of longer-term growth through investment and other means. When short-term financial vehicles floundered in 2008, it was the beginning of the meltdown."

There are some CEOs, like Aubrey McClendon of Chesapeake Energy, who despite not having given their shareholders poison to drink, have definitely served bitter syrups to gulp (by not giving them enough value appreciation). Iven G. Siedenberg, CEO of Verizon Communications, managed such a peanut trick – he made $112.8 million in six years and managed to increase the company's m-cap by just 0.089% ($0.9 billion, to touch $104.17 billion; as on October 1, 2011) during the period. Therefore, for every dollar that he earned, he increased Verizon's market value by $7,979 – only a fraction of Verizon's revenue per average employee figure of $0.55 million for FY2010! This problem was voiced out by Shelly Karabell, Executive Editor, INSEAD

Knowledge, in Business & Economy magazine in a May 2011 paper, where she quoted Prof. Van der Heyden, The Solvay Chaired Professor of Technological Innovation and Academic Director of INSEAD's new Corporate Governance Initiative.

According to Heyden: "Wall Street capitalism is 'unfair capitalism'... Throughout the last 20 years, there was this myth of substantial value creation by US financial corporations. Now we understand better that a substantial part of the value increase was fuelled by the US government throwing money into the economy that led to a demand for stocks... and that increased corporate 'value' through demand effects, without these companies actually creating real value. The US compensation system rests excessively on market valuation: we concluded that if these stocks went up, there must have been substantial value generation. The additional factor that made the US go so far in excess is that US boards are largely controlled by their CEOs – who had no problem with the continuous stock rally... So corporate governance was locked up by CEOs who also were chairmen, who were running the show for their own benefit and that of their friends. There was no downside risk to under-performing CEOs. This was allowed by the corporate governance practice of the 'golden handshake'. The CEOs knew they were under the gun so they signed very good exit packages, which I would say most managers in the US wouldn't ask for and wouldn't get. We have to look much more seriously at CEO compensation and have a principle-based approach rather than a strictly financial market-based approach."

So, from the enterprise point of view, arises a question

– how should the boards of companies like Cisco (which has shed 81.9% in value since Mar 2000), Intel (lost 77.13% since Aug 2000), Nortel (lost 100% of value since Jul 2000, amounting to $283 billion, and was forced to close shop in Jan 2009), Lucent (lost 96.1% since Dec 1999, to fall to $11 billion, before it was acquired by Alcatel in 2006), AIG (lost 72.48% since Dec 2000), AOL (lost 99.07% since Dec 1999) et al, be paying their CEOs?

Actually, the question should be – how much should the CEOs pay back?!

If you look at the Forbes Report on CEO Compensation, there are some striking observations. None of the top 100 earning CEOs (vide total compensation for the past five years) figure in the top 10 spots on the "Efficiency" scale. Compare this to the iconic Steve Jobs, who was ranked "last" in the Forbes list of individual earnings of CEOs for FY2010. That's because he actually took home $0! To talk about the most productive CEOs, none of the top 10 "Efficient" CEOs even managed to break into the top 130 odd ranks of FY2010 top-earners!

So what does research have to say about the pay-performance mismatch? That answer is pretty straightforward. Most CEOs who earn big bucks don't really return the favour in the form of value creation. In a report by Booz Allen Hamilton titled Reining in the Overpaid (and Underperforming) Chief Executive, Corporate Governance expert Nell Minnow, while talking about the downturn, suggests that the Board of Directors of Citigroup, Merrill Lynch, and other financial institutions had contributed to their own downfall and loss in value by creating compensation packages for their

"CEO-PAY SHOULD HAVE A PRINCIPLE-BASED APPROACH RATHER THAN A FINANCIAL MARKET-BASED APPROACH," HEYDEN, INSEAD

CEOs that did not punish them for failure. "These CEOs were guaranteed outsized exit and separation packages, regardless of how their firms performed. All the CEOs who failed got paid very well. Because the CEOs were pushing much of the risk to shareholders, this is what you get," she says. In a paper titled, Rising CEO Pay: What Directors Should Do, Prof. Jay Lorsch of Harvard states, "Criticisms of CEO pay have two related themes: It is too high, and not related to company performance. Ask any thoughtful corporate board member what they are most concerned about these days, and it is not Sarbanes-Oxley. It is CEO pay. Directors worry because shareholders continue to express outrage."

This is a clear warning to boards who have forgotten that compensation committees should focus more on what the shareholders will accept. In the NYSE Euronext CEO Report 2010, the issue of compensation has also been discussed at large. Here are some quick conclusions: "Insufficient transparency about risk taking and insufficient Board oversight are the top concerns of shareholders today, with executive compensation frequently mentioned by US CEOs - 63% of US CEOs & 41% of European CEOs feel that Executive compensation is one of the biggest concerns to their shareholders." Another work by Profs. Michael Jensen of HBS & K. Murphy of The Univ. of Rochester, after an analysis covering the paychecks of 2,505 CEOs in

1,400 companies over a 15 year-period, proved that "the compensation of top executives is virtually independent of performance." With respect to paying for performance, the authors argue, CEO compensation is getting much worse. This problem is more prevalent amongst larger firms, as an August 2010 paper by Carola Frydman of Sloan School (MIT) Dirk Jenter (Stanford), titled, CEO Compensation, states, "Although executive pay has increased across the board, the growth has been much steeper in larger firms."

A study by The Corporate Library (a governance analysis firm headquartered in Portland, Maine), titled, Pay for Failure: The Compensation Committees Responsible, concludes that between 2001-2006, 11 publicly-listed companies doled out $865 million to their CEOs, who in turn eroded a total of $640 billion in shareholder value. The accused were AT&T, BellSouth, HP, Home Depot, Lucent, Merck, Pfizer, Safeway, Time Warner, Verizon and Walmart. Each of the companies paid its CEO more than $15 million in 2005 & 2006, delivered a negative return to stockholders during the period, and underperformed industry peers. The boards claim innocence, but their ignorance is unacceptable.

Confirms Stanford's Dr. Robert Daines, in his report titled, 'The Good, The Bad and The Lucky: CEO Pay & Skill', "Cases of excessive CEO pay reflect a systematic social problem of 'fatcat' CEOs skimming money at shareholders' expense and therefore a systematic breakdown of governance." After conducting an empirical, decade-long analysis, Prof. Lucian Bebchuk of Harvard Law and Prof. Yaniv Grinsten of Cornell, in

their paper titled, The Growth of Executive Pay, conclude that, “Had the relationship of compensation to firmsize, CEO performance and industry classification remained the same in 2003 as it was in 1993, mean compensation in 2003 would have been only about half of its actual size.”

In their the book titled, Pay without Performance: The Unfulfilled Promise of Executive Compensation, Prof. Bebchuk & Prof. Jesse Fried (University of California at Berkeley), argue that “Executive compensation is set by CEOs themselves rather than boards on behalf of shareholders...” This is unacceptable to the ordinary shareholder.

What however comes as good news is that the SEC has proposed to make the situation more friendly for investors. In July 2010, it proposed the addition of Sec. 14A (which required “companies to conduct a separate shareholder advisory vote to approve the compensation of executives”) in the Securities Exchange Act of 1934. But will such a move help balance the paranormal equation? It is not to be forgotten that the SEC had taken a similar stance more than four years back (on Jan 17, 2006), to protect shareholders (which forced companies to report compensations of all top executives, including all stock options, retirement and severance plans and perks worth over $10,000). Five years later, and we still see the scandal-mania of excessive pay for performance in vogue! Perhaps, the anomaly is here to stay, and till it does, there will always be losers on the stock markets and winners across boardrooms.

What should you do as a responsible CEO? Ensure

STEVE JOBS WAS RANKED "LAST" IN THE FORBES LIST OF INDIVIDUAL EARNINGS OF CEOS FOR FY2010. HE TOOK HOME $0!

that you follow corporate governance guidelines honestly, rather than just providing lip service. Set up a compensation committee within the board of directors that is constituted of both executive and non-executive members, but then, only those appointed by the shareholders should be allowed to be part of such a committee. Beyond that, recommend strongly that your pay should be correlated with your performance on key metrics: market capitalisation, profits growth etc. If you manage to do this, we take our hats off to you!

9
SUCCESSION PLANNING

HOW TO SIGN YOUR OWN DEATH WARRANT...

Tell us, if you were an extremely high achievement oriented CEO, which one of the following statements would you subscribe to? Statement A: "In your company, you should be irreplaceable. Your organisation should never be able to do without you. You should necessarily be smarter than all your juniors!" Or Statement B: "Your juniors should be necessarily smarter than you. Your organisation should never feel it can't live without you. In short, you should be thoroughly replaceable, and you yourself should have already found your replacement."

Well, to some, Statement B could seem insanely ridiculous. Why should a top performing CEOs want to

SHARE PRICES OF COMPANIES WITH UNPLANNED CEO SUCCESSION UNDER-PERFORM THOSE THAT HAVE SUCCESSION PLANS

get himself kicked in the back and out?! And why in heavens should someone choose one's own successor? Well, here are the reasons...

A very informative compilation ('In Search Of Excellence: In CEO Succession') by the international HR firm, Heidrick & Struggles, documents an interesting research that "merely announcing who your next CEO will be, can move the market value of your company by 5% or more!" Supporting quantitative research in 2005 on the leading 350 FTSE corporations by the famed Centre for Economics and Business Research proved once and for all how the share prices of companies with unplanned CEO succession typically under-perform those that have planned successions. Global research displays unprecedented backing for CEO succession plans. And yet – according to National Association of Corporate Directors, US – almost 50% of US firms with annual revenues of $500 million or above still don't have "CEO succession plans," what to talk about Indian firms.

But then, should a new CEO be recruited from outside or from inside the organisation?

The answer is almost a no-brainer. The noted Wharton management professor Dr. Katherine Klein comments, "The ideal scenario is careful succession planning that grooms people internally." The famed 2007 Hay Group Study confirms that almost 80% of Fortune's Most Admired Companies preferred an internal candidate

as a CEO successor! Booz Allen's 2008 CEO research confirms that around 80-83% of new CEO recruits globally are insiders! Booz Allen also proves beyond doubt that operationally and statistically, 'insider CEOs' outperform 'outsider CEOs'!

While Booz Allen Hamilton's classic study (Crest of the Wave; which analyses 2,500 of the world's largest companies) shows how by 2005, the global CEO turnover rate had reached a rate that was 70% higher than what it was ten years back, the study also provides smashing insights into the fact that outside CEOs perform only during the short term; for the long term, only inside CEOs provide value. The study further concludes that while almost 30% of firms with negative performance hired outside CEOs, only 6% of positively performing companies did that.

Remember, only an inside CEO who has spent years within the organisation can aspire to be the 'perfect fit'. According to exhaustive research by HBS faculties, CEOs who were a 'good fit' with the organisation succeeded in providing abnormally high positive annual returns of almost 14% to shareholders over the first three years; and those with a 'poor fit' ended up massacring shareholders' wealth with annual returns below a pathetic negative 30%! And it's clearly the current CEO's job to shortlist future replacements ['The Job No CEO Should Delegate', Larry Bossidy, HBR].

From GE, where at any given moment there are 5 people battle-ready to become CEOs [Immelt (current GE CEO), Robert Nardelli (former Chrysler CEO) and James McNerney (current Boeing Chairman, President

and CEO) worked under Welch for years before Immelt was chosen], to Warren Buffet who has already identified his successors [in a secret envelope, with the lines, "Yesterday I died. That is unquestionably bad news for me; but it is not bad news for our business!"], top CEOs fire themselves out!

The name of Warren Buffett's successor has not yet been made public, but we are so sure that it will be an insider filling his shoes, as he had revealed in an exclusive interview with Business & Economy magazine in 2008.

This is what he had said when questioned about who would fill his shoes, "They [he had detailed succession plans in letter he sent to shareholders in the Berkshire annual report 2008] all want to come to work for Berkshire, but they're willing to wait until I'm not here and they're very happy in their present jobs. They're all wealthy, so there's no sense having them here now while I'm doing the job. But the board knows exactly who they are and when the time comes they'll get a phone call." One of the world's richest men and perhaps one of the most successful investors ever has it all sorted out. His company knows it has more than one potential candidate for CEO waiting in line, for his turn.

Steve Jobs had groomed Tim Cook, an insider, for years for the CEO position. In fact, Apple stock hasn't suffered a wee bit despite the unfortunate demise of Jobs, once considered irreplaceable.

When Subhash Chandra, founder Chairman of The Essel Group (and Zee group) had spoken to Business & Economy magazine in the summer of 2010, this is what the media maverick had to say about succession

80% OF FORTUNE'S MOST ADMIRED COMPANIES PREFERRED AN INTERNAL CANDIDATE AS A CEO SUCCESSOR!

planning at his company, "The next generation has been a part of various businesses within the group for several years. They have proved their mettle and are leaders in their own right. In fact, I feel the takeover process has actually been gradual." The same is the thought shared by Kris Gopalakrishnan, Chairman of Infosys Technologies. In an exclusive interview with Business & Economy, he had said (Kris was then the CEO of Infosys), "We have an executive council which has a small number of leaders, five, who could any day takeover as CEOs. Beyond that, we have about 50 people identified as Tier 1 leaders, who also are prospective CEO material. We have a special program for development of these leaders by the board members."

And when he was questioned on whether he had a preference for any functional expertise in the prospective bunch while selecting the future CEO, he had said, "Functional expertise, actually, that is a big challenge. Once you develop a functional expertise, it becomes difficult to focus. We are not doing a good job with respect to job rotation. We are trying to replace that by giving them [prospective successors] certain experiences, giving them corporate responsibilities, and running certain programs with them so that they can get an experience of different roles as well."

On November 24, 2011, the Board of Directors of Tata Sons appointed Cyrus P Mistry as the deputy chairman

of Tata Sons. The board said, "He will work with Ratan N Tata over the next year and take over from him when Tata retires in December 2012."

Leaders of world-class firms have had their succession plans excellently laid out; but there's one man who, we suspect, started this brilliant trend of finding one's replacements; we know him as Roberto Goizueta.

LOSE IT LIKE GOIZUETA

Goizueta, an impoverished Cuban immigrant – who escaped to Miami with his wife and $40 (not necessarily in the order of importance) to escape Castro's political influence – became the best performing CEO globally in the history of mankind during his incredible 17 years at the top.

Since the time he took over the CEO's mantle in 1981, he created more shareholders' wealth than any CEO in history – a mind numbing 7,100% share price increase – more than Lou Gerstner, Steve Jobs, Bill Gates, and even what the neutronic Jack Welch, could ever achieve in that time period!

And ironically, this top performer's biggest motherlode of a contribution to the management fraternity has been formalising the art of 'losing it all when at the top'... in other words, ensuring that he was thoroughly replaceable and could be kicked out lock, stock and barrel, anytime – what we today know as 'succession planning'! Goizueta had four people ready to takeover his throne at any given moment, and ten more to fill in their posts! Roberto Crispulo Goizueta died of lung cancer on October 18, 1997. For 17 sparkling years, this Cuban 'revolutionary'

was the world's best performing global Chairman & CEO of a Fortune 500 company we now know of as The Coca-Cola Company! And nobody's ever 'lost' it like he did...

DON'T WORRY POP. WE'LL BLOW IT ALL UP!

The corporation, that is! Related closely to the question of succession planning is the question of whether companies that are led by founders' heirs perform better or worse than corporations whose reins are held by non-family CEOs, given the fact that globally, and even in India, there has been a propensity of cases with the likes of Bill Ford, Michael Dell, the Bajaj family, Ambanis, and many more sticking on hedgehog-like to the concept of not leaving family control.

Consider this – 33% of US companies, a numbing 66% of the European economy, and closer home, a huge 52% of Nifty and a huger 57% of Sensex corporations are family run, with a high probability of having legacy CEOs!

Perhaps the most dramatic paper that electrifyingly shook age-old perceptions was the one presented in 2004 by stalwart professors Belen Villalonga (Harvard Business School) and Raphael Amit (Wharton), who analysed "all" Fortune 500 firms and proved unequivocally that not only do the stock returns of family firms consistently show higher levels of risk, but also that "when 'descendants' (of founders or founding families) serve as CEOs, firm value 'is' destroyed!" If one presumed that modern corporate governance norms were enough to mitigate the damage caused by family successors, Villalonga and Raphael prove further that descendant CEOs "destroy value whether

"IF DESCENDANTS (OF FOUNDERS OR FOUNDING FAMILIES) SERVE AS CEOS, FIRM VALUE 'IS' DESTROYED!" HBS, WHARTON

or not the family has control-enhancing mechanisms."

While the most noted 2003 research by London Business School proffered that family businesses "risk their growth potential if they fail to recruit from outside," most amusing was the Economist research at the turn of the century that commented how the death of a significant inside shareholder resulted in shareholders' wealth increase ("the larger the deceased's shareholding, the bigger the subsequent rise!") Strangely, this finding gets humongous support from the subsequent benchmark 2005 research paper titled 'Firm Performance...In Family Managed Firms' by David Hillier (Leeds) and Patrick McColgan (Aberdeen), which documents positive stock price increases to the "announcement of the sudden death of a company's founder executive." But more seriously, they also indisputably brought out how family CEO successions are almost always followed by dramatic declines in not only stock performance, but most dangerously, even operating performance!

Not surprisingly, the exits of family CEOs from family owned firms led to increases in operating performance, revenues, employment, stock value, but only if the new CEO being appointed was from outside the family! A fact vindicated a few years before in 2003 by the radical Pérez-González of Columbia Business School; and even by Professor Borokhovich of Cleveland University; and by Bath, Trygve, Schone of Institute of Social Research

(Journal of Corporate Finance, 2005); Slovin (Louisiana University) and Sushka (Arizona University)... the list is so endless that it seems stupid to keep on repeating the same fact.

Clearly, family firms not only should hire professional outside management at the top, but also need to most definitely ensure that the CEO is "NOT" appointed from within the family when the founder gives up his reins.

So could excellently performing Indian firms like Infosys (with 17% promoter holding and a "founder CEO", Shubulal), Wipro (88.59% family holding and Premji at the helm), Bharti Airtel (68.29% with the Mittals), Hero MotoCorp (52.21% with Munjals), Reliance Industries (46.48% promoter holding; Mukesh heading the business) etc have the gumption to ensure that the next in line holding the reins of the group is not from the founding family? That's where the tough choices begin.

Interestingly, unlike the West model, most of the above firms – with the Tata group standing as a mercurial example – have now employed extremely qualified outside CEOs for separate SBUs within the group! And those which haven't? For instance, the stock price of Bajaj Auto, after elder son Rajiv took over from Rahul, has slipped to around Rs.1,599 (as on November 24, 2011) from the halcyon days of Rs.2700 plus.

And similar examples galore are splattered around within India Inc. And now, according to the exemplary BDO Stoy Hayward Survey, only around 10% of family-businesses globally survive past the third generation.

The world's second richest individual Buffet wrote in 1993 that "logically, the most effective in ensuring first-

class management" is a setup where the CEO is not from the owner-class! Is it any wonder that both he and his best friend, the world's richest individual, Bill Gates, have confirmed that their descendants will "not" inherit their legacies?

The summary lesson: Be the great entrepreneur who ensures that once you give up your controls, the CEO's position is handed over on the basis of merit to an insider, than on an automatic basis to your family heir. That will ensure that the stock markets considerably value the firm's commitment to meritocracy and the future returns from professional management.

MANDATORY RETIREMENT AGE: EIGHTY TILL I DIE!

This is an easy one! What's common between Bill Gates, Narayana Murthy and Bill Ford? All of them gave up top positions within their organisations in the same year (in 2006); and in organisations that were started either by themselves or by their families! Now comes the tough one! What's uncommon between these three people? While Bill Gates (then 50) & Bill Ford (then 49) voluntarily gave up the mantle (and can choose to come back whenever they might so desire), Narayana Murthy was, well, how should we put it, ceremoniously eased out, due to rigid corporate governance norms laid down by Infosys! Murthy turned 60 on August 20, 2006, and can perhaps never 'choose' to come back, even if he so desires.

But then, of course, Infosys is praised for following benchmark standards in global governance norms.

EXITS OF FAMILY CEOS FROM FAMILY OWNED FIRMS LED TO INCREASES IN OPERATING PERFORMANCE, STOCK VALUE ETC

Well, ensuring that CEOs and Chairmen retire on a pre-specified date is a true hallmark of world-class corporations. Right?... Wrong!

Surprising as it may seem, forcing top management personnel to retire on the attainment of a particular age is perhaps one of the most non-scientific and illogical management propositions that exist today, and one that is much criticised the world over. In a comprehensive June 2006 study of all the leading corporations that make up the Standard & Poor's 500 list, Spencer Stuart showed how only a measly 3.6% of the S&P 500 companies had CEOs who "retired" on attainment of a specific age. A mammoth 96.4% of CEOs were either kicked out (due to non-performance), or were replaced due to their ill health (3% in fact passed away while serving their tenure), or simply continued as CEOs in the company. Even the median age of the 3.6% retiring CEOs was a promising high of 66.5 years. What's more, now an astronomical 90% of CEOs surveyed by the Canadian Chamber of Commerce want the discriminatory and outdated 'mandatory retirement policy' abolished, even for other employees!

Clearly, highly successful corporations across the globe depend extremely less on unreasonable automatic retirement policies, and more on professional performance appraisal methodologies to decide the tenures and selection procedures of CEOs. This is perhaps a lesson that the board of directors at Tata Sons

ONLY 3.6% OF S&P 500 COMPANIES HAD CEOS WHO "RETIRED" ON ATTAINMENT OF A SPECIFIC AGE

should internalise, given that as per company regulations, a well performing Ratan Tata will be forced to retire in the month of December 2012 and hand over his position to the planned replacement, Cyrus Mistry, son of Pallonji Shapoorji Mistry, the single largest shareholder in Tata Sons Ltd.

In a study of US companies, Forbes came out with almost unbelievable and astounding findings – a mind numbing 81% CEOs of America's top 100 corporations started their careers with the very same organisations of which they are CEOs, or had worked with just one more company. And if you were wondering about the scenario outside the US – in the same report, Forbes quotes how, on an average, a monumental 75% CEOs of leading non-US corporations have spent more than 35 years or more with the same company they lead. Take that for loyalty! But one should not disrespect this.

No doubt, youth is too precious, and firms have to employ and retain more and more of them, as they bring that brilliance of enthusiasm and electricity to the competitive battleground that veterans clearly lack. But the same enthusiasm and electricity would be trite immature and of little use, if these are not harnessed by the power of illimitable vision, qualities critically resting with tried and tested corporate war-horses, the CEOs.

So in a nutshell, while the expertise of the best performers is required, yet we must remember that best performers always create their own replacements.

But don't kick out these best performers just because they've reached a particular age and have a replacement ready. Leave it to a performance parameter than an age-driven one. And finally, even if the family owner is a real visionary and tremendously driven man, he must believe and understand that giving the reins to a family member just for the sake of continuing the legacy might indeed be a destructive proposition!

10
THE WINNING LOSERS!

HELLO LOSERS!

If you describe yourself as the bankrupt also-ran, the sure-to-lose stooge, the dud that always flops, then welcome our dearest iconic failures, join the club of losers who will rule this century.

Loser! If that word stings you to the core of your heart, yet is the exact word that describes you completely, in every aspect, then this chapter is for you. Hello losers! You've reached this far – congratulations! Now allow us to usher you into this chapter hoping that you never forget the feeling of being a loser, and that you always hate every moment of it. Before you start cursing our ten generations and beyond, let us quickly take you through the story of a few losers who, for us, embody the spirit

LOSER! IF THAT WORD STINGS YOU, YET IS THE EXACT WORD THAT DESCRIBES YOU, THEN THIS CHAPTER IS FOR YOU

of despondent losers.

This boy from Syracuse (New York), was labelled a dyslexic when he was just seven. His friends would harass him, and his school teachers would humiliate him. This is how he describes his early days, "I'd try to concentrate on what I was reading, then I'd get to the end of the page and have very little memory of anything I'd read. I would go blank, feel anxious, nervous, bored, frustrated, dumb. I would get angry. My legs would actually hurt when I was studying. My head ached." He went to three different high-schools and each time, he would try to hide his disability. Soon it would be discovered, and he would be sent off to remedial reading. He raised his hands very often in class, only to ensure that his teachers noticed him and gave him extra points so that he could just about make the passing grades. Even when he had to complete his homework, he would first dictate it to his elder sister, make her write it down, and then copy it word to word.

His parents got separated when he was just 12, and he along with his sister Lee Anne, moved with his mother to New Jersey, where she had to work in three jobs simultaneously to earn enough to feed the family. Everything in his life, besides playing baseball, soccer and football, seemed hopeless. He finally managed to clear high school but failed his undergrads as he was a "functional illiterate". He loved to learn, wanted to learn but the dyslexia was debilitating (Many times, he would

even forget that when the fuel gauge in the car falls to 'E', it needed refuelling). He decided to move to LA to become an actor. Even then, the loser in him found it hard to pass auditions, because he simply could not read the script. He started requesting others during the auditions to read the script and the directors to talk about the characters and the film. He wanted to give it all up many times, but whenever he did, all he remembered were his mother's words – "You've got so much potential. Don't give up." In 1983, he landed his first starring role in the film Risky Business. He got noticed. Three years later, Top Gun was released, which grossed $343 million and made him a millionaire (he earned $2 million from the film)! Thomas Cruise Mapother IV is his name; Tom Cruise is how we know him – the winner of three Golden Globe Awards (and nominations for three Academy Awards). Tom Cruise, then a dyslexic with poor memory, and today, a certified-flying pilot, a millionaire- producer and one of Hollywood's most powerful stars! *And all that because the loser never gave up!*

The second loser in our list was born to unwed, teenage parents at a farm in Mississippi. Her mother was an 18-year-old housemaid (named Vernita Lee), while her father was a 20-year-old freshman in the US army (named Vernon). Soon after she was born, her parents decided to part ways, and she was left in the care of her grandmother, with whom she stayed till she was 6. Her childhood days could simply be described in three statements – she was a female, she was black, and she was very poor. As a child, she used to "playact" before an "audience" of farm animals. She was a bright kid though.

On her first day at school, she left her kindergarten class after writing a note to her teacher, where she expressed her intent to study in the first grade. She was promoted to the third grade the very next year.

At the age of 6, she was sent to a very poor and dangerous neighborhood in Milwaukee, where she lived with her mother and two half-brothers. There, she was repeatedly raped by her cousin, her uncle and her mother's friend. And her mother, because she worked odd jobs during odd hours, and because of their massively disadvantaged background, could frustratingly do nothing. The girl's sufferings did not end there. She disintegrated into a habit of repeatedly skipping school, stealing money, and running away from home. Fed up, her mother then decided to put her into a detention home. As luck would have it, there were no openings in the home – and so she was sent to live with her father in Nashville. She became pregnant when she was 14, and gave birth to a dead baby.

Raped, humiliated, without any future, she was devastated, but she swore to herself that she would never give. Her father somehow aided her financially, and through sheer gut-wrenching effort, she became an excellent student at school and participated in the drama and debate clubs. The following year, she won a full scholarship to Tennessee State University (TSU) – and the following year, she was invited to a White House Conference on Youth. Subsequently, she was later given a job to read afternoon newscasts by a local Nashville radio station. When she became Miss Black Nashville and Miss Tennessee during her freshman year at TSU, Columbia

Broadcasting System (CBS) offered her a job. And all this while she was still nineteen. She worked at various TV channels and got her biggest break in January 1984, when she became the anchor on a morning talk show called A.M. Chicago. Given the popularity of the show, 20 months later, it was renamed to 'The Oprah Winfrey Show'. The black, poor, loser had been noticed and was already on her way to becoming a global celebrity. Today, she runs a production house (Harpo Inc.), is the richest black billionaire in the world (worth $2.7 billion) and most importantly, the second most powerful celebrity (behind Lady Gaga) in the world (as per Forbes 2011 ranking). *And all because she never gave up!*

TOM CRUISE, THEN A DYSLEXIC WITH POOR MEMORY, TODAY, A CERTIFIED-FLYING PILOT, MILLIONAIRE-PRODUCER & STAR!

The third loser in our list was born to Elias and Flora d'Isigny in Chicago's Hermosa community area. His father was a farmer and a worker at a railroad company. As a young man, he was fired from the Kansas City Star newspaper. Reason: his boss claimed that he lacked creativity. To fulfil his desire to become a full-time cartoonist, he started an animation company called Laugh-OGram Films in 1921. Though the start appeared bright (as he was able to raise $15,000 for the company), the New York distributor, with whom he had tied-up, went bankrupt. Result: end of Laugh-O-Gram. With a mountain of debt in his name, emotionally drained and financially broke, he barely earned a few dimes to pay his rent. Not able to afford proper food, this loser started

eating dog food. *But despite all that, there was one objective that the man nurtured all along, and that was to never give up.*

By missing out on a few meals, he saved his last few dollars to buy a train ticket to Hollywood. And here, in 1926, he created an effervescent cartoon character named Oswald the Rabbit. When he tried to strike a deal with Universal Studios, without his knowledge, Universal went ahead and patented the Oswald character. Of course, the studio paid him nothing. He created more characters; but there were other rejections too. His Three Little Pigs concept was rejected for lack of more characters; filming of Pinocchio was stopped during production; his others creations like Bambi, Pollyanna and Fantasia were utterly disliked by viewers. Fighting against all odds and bankruptcy, the man went on to make the animation film Mary Poppins in 1944, which became a blockbuster hit.

Today, we all know this loser more because of Steamboat Willie, a cartoon character he made – a character that came to be later known as Mickey Mouse. Walt Disney was the name of this loser, who fought failure and sketched his road to success. Although he died in 1966, he left behind a legacy of never giving up. The company he co-founded, The Walt Disney Company, is today worth $55.98 billion (as on October 1, 2011) in the stock market!

The fourth loser in our story is a woman, whose life went into a massive disarray at an age when most of us are well settled. An English teacher in Portugal, she married a TV journalist. But just four months after the birth of her daughter, her husband separated from her. At wits' end, she left her teaching job in Portugal and decided to be with her sister in Edinburgh, Scotland. Recovering

from the divorce was still too painful and the lady kept struggling to make ends meet for herself and her year-old daughter. She had only government subsidies for support. She thought of teaching in Scotland too, but was soon rejected as in order to teach in Scotland, she required a 'PGCE' (postgraduate certificate of education). And then, she was diagnosed with clinical depression, and even thought of committing suicide.

Through all this, her one unwavering lighthouse was a book she was writing; a book which allowed her to escape all her miseries; a book which encompassed her spirit of fighting against the worst that life could offer and never giving up. Despite her miserable real life existence, she continued writing the book, spending time in many cafés. After completing the book, when she presented it to publishing house Bloomsbury in 1995, the owner asked her to "get a day job." Twelve other publishers rejected the book; yet, she continued resolutely. A year later, the same publisher that had rejected her initially, Bloomsbury, offered her a measly £1500 advance for publishing rights in UK.

Although that money wasn't enough at all, she didn't give up. In 1997, she applied for grants from the Scottish Arts Council to enable her to continue writing. She received £8000 in return. And then, in 1998, Scholastic Inc. bought the US rights to publish her book for $105,000. The book came to be known as Harry Potter and the Philosopher's Stone. And she is Joanne K Rowling, the world's richest author, worth over $1 billion. Following are the excerpts from a speech that Rowling delivered to graduates at HBS two years back – "A mere seven

THE FINANCIALLY BROKE WALT DISNEY SURVIVED ON DOG FOOD WHEN HE COULDN'T EARN; BUT HE NEVER GAVE UP!

years after my graduation day, I had failed on an epic scale. An exceptionally short-lived marriage had imploded, and I was jobless, a lone parent, and as poor as it is possible to be in modern Britain, without being homeless... By every usual standard, I was the biggest failure. Failure meant a stripping away of the inessential. I stopped pretending to myself that I was anything other than what I was, and began to direct all my energy into finishing the only work that mattered to me... And so rock bottom became the solid foundation on which I rebuilt my life. I was the biggest failure I knew. Failure gave me an inner security that I had never attained by passing examinations. Failure taught me things about myself that I could have learned no other way." Her books have so far sold more than 400 million copies and her last four titles of Harry Potter have consecutively set world records as the fastest selling novels in the world. Today, the Harry Potter brand is alone worth $15 billion, with the seven Potter films having grossed close to $5 billion! *All because the loser Rowling decided to not give up.*

Failures are the stepping stones to success. And this is as true for companies as they are for corporations. In an article contributed by Carmen Nobel, Senior Editor of HBS Working Knowledge, to Business & Economy magazine, she writes, "Most companies fail. It's an unsettling fact for bright-eyed entrepreneurs, but old news to start-up veterans. But here's the good news:

Experienced entrepreneurs know that running a company that eventually fails can actually help a career, but only if the executives are willing to view failure as a potential for improvement. The statistics are disheartening no matter how an entrepreneur defines failure. If failure means liquidating all assets, with investors losing most or all the money they put into the company, then the failure rate for start-ups is 30 to 40 percent, according to Shikhar Ghosh, a senior lecturer at Harvard Business School who has held top executive positions at some eight technology-based start-ups. If failure refers to failing to see the projected return on investment, then the failure rate is 70 to 80 percent. And if failure is defined as declaring a projection and then falling short of meeting it, then the failure rate is a whopping 90 to 95 percent. Very few companies achieve their initial projections... Failure is the norm."

He was born at an underprivileged medical center. Even as a baby, life was anything but sweet for him. His parents divorced within three years of his birth. Although his mother remarried, she unfortunately married a man who was known to be jobless, and who got into the habit of coming home drunk every night – in fact, during a drunk-driving incident, the man had both his legs amputated and died soon after. As a young lad, struggling to keep up with social questions about his multiracial heritage, he became addicted to alcohol, marijuana and cocaine during his teenage years, which he later said was his "greatest moral failure." He also became an uncontrollable chain smoker who couldn't quit smoking despite trying too many times. He even lost his mother to ovarian cancer in 1995, much before he had anything signify cant to achieve. But

failures are what taught this man the beautiful attitude of sincerity.

That belief is what led Barack Obama to win the Illinois senator seat in 1997; that belief is what led him to convince a totally opposed state assembly to pass a bill that forced police to videotape all interrogations to reduce torture and deaths in custody, especially of blacks; that belief is what led him to run the Presidential elections in 2008 despite being trounced devastatingly in the 2000 Congressional elections and despite being told a few years back by his media consultant that he stood very little chance as his name sounded too similar to Osama Bin Laden.

If Obama had had an underprivileged childhood, the late Steve Jobs went through worse. We might be repeating his example, but that's the wonder of this single man, who made a world of difference to all of us.

When Steve Jobs was born, his mother was an unwed graduate student who put him up immediately for adoption as she did not wish to rear him. Ironically, Steve wasn't even the first choice of his adoptive parents as they had actually wanted a girl. Steve's 'new' mother was just a high school pass-out, and his father wasn't even that. Later on in life, Steve Jobs did join college, but dropped out within six months as he couldn't see the value in it. But despite dropping out, Jobs continued dropping into classes that interested him. He would sleep on the floor of his friends' rooms and returned Coke bottles to earn 5 cents per bottle to buy food. Every Sunday night, he would walk seven miles across town to get a free meal at a Hare Krishna temple. The learning from that part

of his life and those 'dropout' classes is what gave him the zeal to co-found Apple in 1976, market its Mac products too passionately, and make the cover of the TIME magazine by the age of 26. It's common knowledge now how Steve Jobs was fired from his own company by Apple's board of directors, a failure that drove him again to found Pixar and NeXT, two more iconic companies, before he was reinstated storybook style as Apple's CEO! A pancreatic cancer patient (one of the most dangerous cancers with the lowest survival rates), Steve Jobs also had a liver transplant in 2009. Despite this he joined back for work! "Living every day as the last day of your life," is the very statement that drove his ambitions through all his failures since the age of 17, till the last day of his life, October 5, 2011.

ROWLING SURVIVED DIVORCE, CLINICAL DEPRESSION, JOB LOSS AND REGULAR REJECTIONS BY PUBLISHERS; BUT SHE NEVER GAVE UP

From Milton Hershey of Hershey Chocolate Company (whose businesses went bankrupt three times before he finally made it big), Henry Ford (who failed twice before Ford Motor Corporation was born) to Abraham Lincoln (who lost seven times in the Presidential elections before he finally made it), all successful people have been the biggest failures at one point or the other in their lifetimes.

Finally, we come to the last loser – and that is you! Every person in this world has had failures, some small, some big. There is no individual on this planet who has been a born winner and none who has never experienced

any failure – from Steve Jobs to Bill Gates to Mahatma Gandhi to Nelson Mandela, all legendary icons have been as legendary in being failures at some point or the other in their lives. But the one common quality amongst all of them has been, that they've never given up. The resolve to fight each failure – however harsh it might be – with conviction is the attitude that these losers have had. And that's exactly the attitude that you should cherish for your future. Failing is the norm – what separates winners from losers is their attitude and what they learn from their failures. If you want to be a successful leader, develop the winning attitude of the world's greatest losers.

May you not be the biggest example of success ever, but be the biggest example of how to fight the worst failures. May you succeed in inculcating the right loser's attitude. May you always be the loser that we wish you to be.

11
PASSION

WHAT SHOULD BE THE PRIORITY THAT YOU GIVE TO THIS FACTOR?

What kind of people does it take to ensure that a company transforms into an excellently performing and most innovative corporation? In other words, what is the top quality that a CEO should look for in his people to dramatically alter the course of his firm from being just 'good' to being radically 'visionary'?

The most respected Peter F. Drucker was the first to bring out the fantastic connection between innovation and entrepreneurship. He proved how an organisation can never dream of being stupendously innovative unless it is filled up with die-hard entrepreneurs; warriors who live and die with the constant burning desire to start something

MIT'S DR. BYRNES IDENTIFIED EIGHT ESSENTIAL CHARACTERISTICS OF GREAT LEADERS. THE TOP ONE WAS "PASSION!"

new! But then, what is that 'top' quality that differentiates fanatical entrepreneurs from run-of-the-mill managers? The answer is 'passion'. The existence of that one quality in individuals defines the world of a difference between being a titan of a performer, or simply being a historical also-ran. In a path-breaking May 2007 official Microsoft research release ('The Rich Have Money – And Passion'), the Harrison Group, a leading international research firm, showed how 70% of America's big family fortunes are less than 13 years old (that is, they're not 'inherited') and more importantly that "the people who amassed those fortunes are primarily entrepreneurs – risk takers for whom wealth is a byproduct of pursuing their passion!"

In a classy 2005 HBS paper, Dr. Jonanthan Byrnes (actually from MIT), after an exhaustive international research, identified "eight essential characteristics" of transformational leaders. The top one was "capacity for passion!" Describing it as the "fire in the belly," Dr. Byrnes says exceptional leaders are simply "people who leave their footprints in their areas of passion!" Accenture's monumental analysis, 'The Leader Within', has a three word description of a leader: "The Passionate Leader!" The mercurial management guru, Guy Kawasaki, while talking on Forbes.com, shows how a true entrepreneur can recruit exemplary world-class individuals simply by communicating his passion, rather than showing them money! BusinessWeek's brilliantly investigative

cover story on Larry Ellison, founder-owner of Oracle, shows how Larry has been simply "putting his money where his passion is." In fact, that is the title of their cover report! In one most well-known seminar, when a businessman asked the second richest man in the world (as per Forbes 2011 list), Microsoft founder Bill Gates "the secret of his success," the prodigious billionaire replied, "The five-point master formula of success is: 1. Passion, 2. Intelligence, 3. Integrity, 4. A Good Team, and 5. Leadership." Steve Jobs went on record to commit, "People say you have to have a lot of passion for what you're doing... It's totally true!" Warren Buffett, the world's third richest person (Forbes 2011 list) gave this famous quote on leadership: "When you have able managers of high character running businesses about which they are passionate, you can have a dozen reporting to you and still have time for an afternoon nap..." while Michael Dell lives by his statement, "Passion should be the fire that drives your life's work,"

Jack Welch describes a supremely competitive player as one who has to be "passionate." There's no doubt about it! If you have to recruit future CEOs, don't just go by their education or personality, but look into their heart... Do they live and die everyday like fanatics because of that uncontrollable "fire in the belly"? Do they suffer sleepless nights because they keep thinking madly about how to achieve stupefying results? Are they, in short, eccentrically passionate? Recruit such people blindly. No questions!

These people serve their institutions by managing for the long term and not allowing themselves to be seduced

by the twin mirages of short-term profit or stock market valuations. They have a grand vision for the future of their organisations, and they infect others with their energy, enthusiasm, passion and integrity. These are the leaders we write books about, study, try to understand, and lionise."

This is how some leaders of today define passion, which they shared with The Human Factor (a Planman Media publication) over the past couple of years. "Simply put, it [passion] is what I love to do and achieve, professionally or personally" - Hiroshi Takashina, MD, Nikon India; "Passion is my work. It is exciting, inspiring, and demanding; which is the reason why it drives me to go ahead" - Abhishek Khaitan (MD, Radico Khaitan); "Passion is… the desire to make a difference in a unique way" - Shouvick Mukherjee, VP & CEO, Yahoo! India; and "Passion is… when you get out of bed and feel that I am going to make a difference - " Dhruv Shringi, Co-Founder & CEO, Yatra.com.

Passion is what you think of it, but something without which you cannot join the league of the greatest CEOs! Not only this, it's the CEO's primary responsibility to ensure that the people who're recruited into his organisation are those for whom work is unhindered and fanatical passion. Train your recruitment personnel to be extremely focused on recruiting only passionate people. If your prospective employees are not passionate about their jobs – and you still end up recruiting them just because they are goo 'achievers' – yours will be surely an average or below average company. Passion is the one – and only – differentiator between the good companies versus the

outstanding companies.

Clearly, there's no word more important than this that can exist in the dictionary of modern day CEOs. And perchance if it doesn't exist in yours, the solution is quite radical, yet simple! Leave your corporate job right now. In fact, stop doing anything; for we actually do not know of anything that can be done without it being driven by passion.

JACK WELCH DESCRIBES A SUPREMELY COMPETITIVE PLAYER AS ONE WHO HAS TO BE "PASSIONATE"

Passion is one of they key principles of success as highlighted in Discover The Diamond In You. We suggest a good read of the same to understand it better.

12
MULTI-TASKING

SHOULD A CEO MULTI-TASK OR FOCUS ON KEY ISSUES ONE AT A TIME?

We mean multi-tasking! Actually, the issue had been hitting us for many days, since we see kids all around multi-tasking like mad on an everyday basis. Think about any kid in your family or friend circle. Don't you just hate it when, while you want to talk to him, the irritant buttercup takes out one earpiece [of his iWhatever], keeping the other in at full blast, at the same time mumbling away half words that he's "giving you full attention"? Yes, it's happened with us too – plus, there's always this ever-present question; should a CEO be open to multi-tasking or is multi-tasking a sure shot method to inefficient leadership? We'll be honest; we thought multi-tasking was

BILL GATES IS THE ORIGINAL MULTI-TASKING MAN... MULTI-TASKERS ARE MORE EDUCATED AND BETTER PAID THAN UNI-TASKERS

for the dodos, the ones who'd always be inefficient. Well, the famed Dr. Ram Charan (Fortune magazine's favourite management guru) had told us during a lunch some time back that "mastery of the subject" one is practising is its own reward. Obviously, you can't do that if you multi-task, can you?! We were sure the world's greatest CEOs focus on "mastery" of the subject than on multi-tasking, and decided to do a quick review of what really works for the world's most specialised leaders.

It was personally shocking for us when we read the NHS Report of the famous Institute for Innovation and Improvement, which profiled Gates and reported that "Gates is the original multi-tasking man..." In fact, Gates' belief in multi-tasking is so supreme that "once, Gates hung a map of Africa in his garage, so he could have something to occupy his mind for the precious seconds spent turning on the engine of his Porsche." TIME magazine reported in an inside story on Bill Gates that when Gates was in the sixth grade, due to his behaviour, "his parents decided he needed counselling!" After one year of counselling sessions and a plethora of tests, the psychological counsellor reached his conclusion. He told Gates' mother, "Mary, you're going to lose. You had better just adjust to him!" That he can eat food with both hands (in fact, he's ambidextrous) was something we learnt much later after getting to know that experts describe him to be a master of "parallel processing" and,

uh, "multi-tasking."

The noted Dr. Louis Csoka's path-breaking research 'International Communications Research, Dec 2006' shows how great multi-taskers – people who handle more than one job, one designation, one profile at a time – are not only more educated than non-multi-taskers (78% more), but also are better paid (a whopping 200% more)! The benchmark IMF research paper 'Enterprise Restructuring and Work Organisation' proves with conclusive findings that world-class organisations of today are slimmer and have an increased number of multi-skilled workforces where "workers have to be able to handle a multiplicity of tasks and be very flexible." Dr. Levenson (University of Southern California), Dr. Gibbs (Chicago Graduate School of Business) and Professor Zoghi (Bureau of Labour Statistics) moved the management in 2005 when, in their world beating research 'Why Are Jobs Designed The Way They Are?', they provided definitive quantitative evidence from the world's largest and best performing organisations that it's 'multi-tasking' instead of 'specialisation' that "leads to greater productivity." Dr. Jaime Ortega in a Centre for Labour Market sponsored research, statistically showed that for increased profits, it's 'job rotation' rather than 'specialisation' that should be followed!

In fact, David Silverman, author of 'Typo: The Last American Typesetter or How I Made and Lost 4 Million Dollars', writes "The higher up you are in the organisation, the more important multi-tasking is." Based on their research which draws on data of 200 CEOs and executives of technology ventures listed on the London

Stock Exchange, Vangelis Souitaris (Professor at Caas Business School, London) and B.M. Marcello Maestro (Managing Director of a New York based investment firm) concluded in a Harvard Business Review article (October 2011 issue) titled The Case for Multitasking: "Our research on executive teams suggests that this bias against multitasking may be misguided. In fact, executives who doggedly plow through each task until it's finished may be doing their companies a disservice."

So while multi-tasking is good – as we learnt – how should people go about multi-tasking successfully? The answer is simple – prioritise. While speaking to one of Planman Media's publications (Discover The Diamond In You) in October 2011, Dr. Stephen Long, a renowned Leadership Coach to Fortune 500 Companies and NFL Teams and a former trainer at the US Air Force Academy says, "Multi-tasking is important. But it really boils down to one thing – prioritising. Leaders and successful CEOs are not born with time management skills. They develop it and become multi-taskers. Even leaders make the mistake of surrendering to situations. In today's competitive landscape, you can't afford that. If you want to avoid getting stuck in problems that do not fetch you anything at the end of the day, then start planning. Segregate what ever you have on your plate based on relative importance. At a given time, you can't really have six tasks that are equally important. And if you do come across such a situation, it is better to accept that you were not prepared. Leading a disciplined life is not really about strategising too much. Its actually about simplifying everything. So even multi-taskers need to prioritise."

"EXECUTIVES WHO REJECT MULTI-TASKING MAY BE DOING THEIR COMPANIES A DISSERVICE," HBR ARTICLE

Gail Boudreaux who was ranked #54 in the Forbes List of the 100 Most Powerful Women in the World 2009 and who presently serves as the Executive Vice President of the Fortune #25 UnitedHealth Group and Chief Executive Officer of UnitedHealthcare, while speaking to Discover The Diamond In You (a Planman Media publication), said, "I had a very unique experience in my career, particularly in this industry, to work in just about every aspect of it. So, as you look at my resume, I was in a rotational management programme early in my career, and I worked from marketing our dental products to sales. I went through our sales development school. And what was unique, I got to see the business from each of the functional pieces, and then was able to put those parts together in every assignment I had, and all of them were a little bit different. That combination of skills is what's probably been the most useful to me. I multi-tasked and I worked hard. And this is what I ask of all my employees today."

Well, what's common between top CEOs like Paul Wilbur, Thomas Wright, Carlos Ghosn, Steve Jobs, Larry Page, Larry G. Stambaugh, Sergio Marchionne and a host of others? Forget multi-tasking at a job level, these world beaters serve as CEOs in two companies at the same time! While few know that Jobs was the single largest shareholder of Disney (apart from being the CEO of Pixar – now with Disney – and Apple together) or that

Google's Larry Page is a top board member at Apple, fewer perhaps know that Carlos Ghosn is the CEO of both Nissan (Japan) and Renault (France) spending half of the week in one country, and half in the other. Sergio Marchionne is similar, handling the CEO positions at both FIAT and Chrysler (apart from being the Chairman at CNH Global, a $15 billion agriculture and construction company). Dr. Ram Charan himself runs the boards of three global companies (Tyco, Austin Industries and Biogenex) !

In summary, it's extremely important that you as an extraordinary CEO learn to multi-task, but not wildly – the correct path is to ingrain this skill through focused training and practise. But beyond this, you should necessarily encourage your future replacements – and in fact almost all employees of your organisation – to be open to multi-tasking. Do this in a structured manner; move people around; give them more responsibilities than they're currently handling – and you may well see that both job enrichment, satisfaction and loyalty increase on a massive scale. And you have multi-skilled personnel readily available to back you up whenever a key member leaves.

13
LOYALTY

LOYALTY & US? JOKERS ARE LOYAL...

The last time we asked a couple of American co-passengers whether they were 'loyal' to their organisation – we told them our motto for our employees was 'loyalty until death' – we were almost thrown out of the BA flight on suspicions of being fanatic extremists! "Why did you even ask them? Even their personal lives have no loyalty," is what we got to hear from most of our 'sceptical hypercritic' friends on narrating the incident. "Just look at their pathetically increasing divorce rates!" But what about their GDP being the highest in the world? Then, does it mean that it's better to have high employee disloyalty for high corporate growth? "Of course, that ensures that the best companies get the best employees

"[BAD] EMPLOYEES' RETRENCHMENT INCREASES [GOOD] EMPLOYEES' LOYALTY; MONEY IS NOT EVERYTHING" FORBES

over a period of time," said one manager to us, chiding away, "These days, only terrorists – and jokers – are supposed to be loyal. In this world of high-decibel growth, an employee is supposed to change at least five to ten jobs, and wives, in his lifetime before reaching the CEO position in double time! Get it?" Frankly, we didn't! And this is why...

Richard Branson famously said, "Loyal employees create loyal customers, who in turn create happy shareholders!" In one top class research on 750,000 employees, the benchmark annual 2006 Sirota Consulting's Enthusiastic Employee report (Wharton Publishing) reveals how, in 2005, firms that had "higher than 70% average employee satisfaction" showed shareholder value increases that were more than the industry average by a colossal 240%

Does it mean then that excellent corporations, to have high employee satisfaction, don't kick out people? Not at all! The ever referred to research, 'The New Workforce Reality' (January 2005), a collaborative study by the Simmons School of Management, showed how a stupendous 80-90% of employees in organisations globally considered four factors – "rewarding of good performance," "the organisation treating everyone fairly," "opportunities for promotion," and "learning opportunities" – as being the most important factors defining their "Ideal Job". Astoundingly, 'job security' did not even find a mention in the massive study! It's quite clear that loyal employees are not 'loyal' because of financial compensation, but

because they know that the organisation is fair in kicking out non-performers immediately and in promoting brilliant performers as immediately ("Employee turnover actually increases loyalty... Money isn't the only thing!" Forbes 2005 report).

Check this out to understand why money plays a very minimal role in admiration for the company. Out of those 100 companies making up Fortune's 2007 list of companies giving 'Best Compensation', only 4 were featured in the top fifty of Fortune's 2007 'Best Companies To Work For' list. How has this changed post recession? Out of the top 10 on Fortune's 2011 list of companies giving 'Best Compensation', only 2 find their names in the top 10 of Fortune's 2011 'Best Companies To Work For' list. Out of the top 20 on 'Best Compensation', only 4 find their names in the top 20 of 'Best Companies To Work For' list. Out of the top 40 on 'Best Compensation', only 8 are in the top 40 'Best Companies To Work For' 2011 list. That's how uncanny the correlation is.

"Employee loyalty is extremely critical to an organisation's success," proved the top-of-the-line Economist Intelligence Unit and Deloitte report 'Employee Commitment, The First Link in the Customer Loyalty Chain.'

And US firms surely have bought the concept! The Walker Loyalty Report, the totem pole of all HR research globally, shows how in US companies, the number of 'Loyal' employees had increased to a whopping 40% in 2005 from the 28% it was in 2001. Consider this – an unbelievable figure of 75% employees now comprehensively say they are "satisfied with their job!" If that doesn't astonish you,

digest this – 81% of loyal employees said they've stopped looking for newer jobs, and 95% of the same said they would necessarily recommend their company to others as a good place to work! Fortune's 2007 research also showed that a super 85% of respondents confirmed how "loyalty is alive & kicking!"

In fact, a 2011 study conducted by MetLife titled 'Study of Employee Benefits Trends: A Blueprint for the New Benefits Economy' states that "Larger corporations have a 50% loyalty rate." While talking about loyal employees and the values they deliver to their organisations, in a June 2001 interview with Planman Media's Business & Economy magazine, Andrew Horne, Managing Director of Xerox India, said that, "The role of a leader is to guide and to demand when it's needed. Particularly in a hierarchical environment, it's important to lead from the front. One has to have a strong will and top management skills. Great leadership is getting people to do what you want them to do without telling them – and that requires great loyalty. But at the same time, when you talk about loyal employees, you have to also give them empowerment. Non-loyal employees don't want empowerment as it comes with accountability. India is very successful because it has companies like the Tatas who have managed to engage their loyal employees to get empowered. The bottom-line is to lead them to deliver the targets."

And for those who thought the case with CEOs was any different, this amazing finding by Forbes (which we mentioned in one of the previous chapters) might give a compelling reason to change their viewpoint – a

OF THE TOP 40 US COMPANIES IN EMPLOYEE SALARY, ONLY 8 FEATURE IN FORTUNE'S 'BEST COMPANIES TO WORK FOR LIST'

mind numbing 81% CEOs of America's top 100 corporations have never changed their jobs (or have changed at best only one job) throughout their lives! A monumentally similar 75% CEOs of leading non-US corporations have spent more than 35 years or more with the same company they lead. That's loyalty!

The solid Booz Allen Hamilton 2007 report 'The Era of the Inclusive Leader' shows how, globally, the average CEO tenure now is the highest in all the years of their study (and for North America, the CEO tenures are the highest among all continents). Further, 'Booz & Company's 2010 11th Annual CEO Succession Study' concludes that "CEO turnover at the world's largest 2,500 public companies has seen its sharpest year-over-year decline (19%) in the past decade, falling to 11.6%. Take that for loyalty again!

And for our skeptic friends, we have this sweet piece of information. The US Census Bureau shows how US divorce rates have dramatically fallen since 1972 to reach the lowest ever now – 3.4 divorces per 1,000 population (a smashing 30% fall since the '70s) – as per the last recorded data (2009).

There's a negative side too, as one of the top managers in our group asked sardonically, "Does it mean you now only have a 0.0034 chance of having more than one wife in a lifetime?!" Dear CEO, if that's exactly your worry now and your wife additionally thinks you're the biggest

loser in town, jump to chapter 10 immediately.

We're sure, all is not lost!

14
SUSTAINED SINCERITY

BEASTUS MAXIMUS OR DON JUAN DE MARCO?

No man ever gets a potbelly. No one! And born gymnasts like us, never in ten lifetimes. You might get a little plump here and there, but a potbelly? Bah! Thus it was, when – with much irritation after being hounded for over a month by our respective wives who accused us in a libellous fashion of having procured potbellies – we landed at a gym (which looked more like a fancy den for bully boys one-third our age trying to show off their hormone pumped muscles).

Trudging in contemptuously, while ogling at the plethora of mile-long machines lined up on both sides, we were straightaway introduced to two brawny thickset six-

WHICH CEO WOULD GET MORE OUT OF HIS EMPLOYEES: ONE WHO DEMANDS SUSTAINED SINCERITY, OR ONE WHO GIVES INDEPENDENCE?

footers, and asked to choose the trainer we would desire to be trained under. And why would we 'desire' one trainer over the other? Their differing training styles were put forward for our consumption. While one hooligan roughneck (Beastus Maximus is what we call him) was purported to be the toughest monster-trainer west of Cambodia, who could savagely whip your ten generations blood-dry till you got into shape, the other surprisingly had a gentler and suaver style of training, allowing you to lavishly train according to your 'desires' and needs, without pushing too hard.

Not surprisingly, Mr. Don Juan predictably was the more admired trainer with a bigger following. But that brought us to an interesting question. Despite the likability – or dislikability – index, who would be in reality more effective in getting people into shape – would it be bull-boy barbarian who could machine wrench your guts out; or would it be the caring inveigler who'll give you enough space to set up a farmhouse?

We decided to check out the metaphor in global corporations – have hard taskmasters been less successful universally than soft taskmasters? Our research gave results to the contrary. The list of Fortune's 2011 Best 100 Places To Work For (which contains names of 100 corporations which employees love the most globally) had only 5 names from the world's top 100 and best

performing corporations. That is, 95% of the world's 100 largest companies – including Exxon Mobil (the most profitable corporation in the world, as per Fortune list 2011), Wal-Mart, Chevron, Hewlett-Packard, GE, Berkshire Hathaway – are actually not the best places to work!! More shocking is the fact that the #1 company in the Best Places to Work ranking (a company called SAS) did not even make it to the Fortune 500 list of the world's largest corporations!

For information, Fortune once noted that research shows that having or not having natural talent is "irrelevant to great success. The secret? Painful and demanding practice, and hard work..." Fortune also wrote about Warren Buffett, the world's second richest individual (as per Forbes 2011), that he was "not a born CEO or investor or chess grandmaster," and that he achieved greatness "only through an enormous amount of hard work over many years. And not just any hard work, but of a particular type that's demanding and painful."

In other words, deep-rooted and long standing sustained sincerity works terrifically better than plain passion and myopic bursts of commitment.

Tiger Woods is a textbook example of what research proves. Because his father introduced him to golf at an extremely young age (when he was just 2 years old!) and encouraged him to "work hard," Tiger had racked up at least 15 years of hard work by the time he became the youngest-ever winner of the US Amateur Championship, at the age of 18! Even today, after winning many world titles, he works as hard, devoting many hours a day to conditioning and practice, even remaking the same swing

twice, because that is his formula to getting super better. Yes, his personal indiscretions have put him back a lot. But given his dedication, he'll be back sooner than one would expect.

Talking about sports, the six-foot, two-inches-tall Gail Boudreaux (about whom we've mentioned in the chapter on multi-tasking too) who was ranked #54 in the Forbes List of the 100 Most Powerful Women in the World 2009 and who presently serves as the Executive Vice President of the Fortune #25 UnitedHealth Group and Chief Executive Officer of UnitedHealthcare, while speaking to Discover The Diamond In You (a Planman Media publication) confessed how hard work led to her success and how the game of basketball taught her that. "I am grateful for the opportunities I had while at Dartmouth. Neither of my parents went to college, and I was among the first female athletes to benefit from the landmark Title Nine, 'equal access' legislation in the US. Having participated in sports plays a lot into how I have developed professionally. You learn how to work very hard and solve problems, improve your performance, set goals, deliver on goals, and develop trust. But wherever your passions lie – whether in athletics, theater, environmental or social causes, or countless other pursuits – you can develop and sharpen many valuable skills just by participating in and being passionate about something. But most important, what is required to succeed in the world of business as a leader is to be hard working and sincere, so that you too can set an example for others to follow. The reason why hard work succeeds in the end is that those skills which you work on will prove useful and beneficial in many

LONG STANDING SUSTAINED SINCERITY WORKS TERRIFICALLY BETTER THAN PLAIN PASSION AND MYOPIC BURSTS OF COMMITMENT

areas of your life as you learn and grow through each new experience and opportunity that life presents to you." [For the records, besides being a very successful CEO and a leader of men in a Fortune 500 company, the 6'2" Boudreaux is a three-time All-American basketball player, and holds till date 12 individual records from Dartmouth College's women's basketball team, where she was the all-time top scorer and rebounder.]

When Carly Fiorina left HP (of course, after halving HP's shareholder value in her six year term), the tumultuous 2001 merger with Compaq appeared to be driving HP straight to the undertaker's workshop. Enter Mark Hurd, who is described as a "peerless control freak and an unrepentant left-brainer!" As Fortune confirms, "Hurd quickly established himself as a stern taskmaster for accountability." Ben Horowitz, who was CEO of Opsware, which HP bought in 2007 in a $1.7 billion deal, adds, "His weapon of choice is the voice mail... and he begins the barrage in the wee hours. If Hurd is down on someone's work, he'll complain openly, so everyone knows he's displeased. It feels like the walls are closing in on you." Hurd's greatness comes from the fact that he's unrelenting, unrepentant and ruthless in his employee destruction, reaching below various levels of employees to rebuke bad performers personally. Under his leadership, HP crossed the magical $100 billion m-cap mark for the first time! Even in the face of recession (a

time when desktop and laptop sales have been battered), HP's stock price had jumped by an unbelievable 130% since 2008 to touch $46 by 2009 end. And look where the once mighty hardware giant stands today without him (as on November, 24, 2011 HP had an m-cap of $51.22 billion).

That brings us to a close associate of Mark Hurd, A. G. Lafley, who in July 2009 stepped down as the CEO of P&G. When Lafley took CEO charge on June 6, 2000, P&G was in a big mess. Over the next six months, matters worsened, with the stock losing 50% of its value and its m-cap falling by more than $50 billion. But Lafley did the unimaginable through his 'Working It' programme, which ensured that every member of the P&G family was made to "actually go into shops to sell to consumers," as the April 2008 book by Ram Charan and Lafley titled The Game Changer, notes. This go-to-field programme ensured that each and every employee was made to work hard and sweat it out for maximum productivity! By the time Lafley left office in July 2009, P&G's m-cap had improved dramatically to $150.59 billion from the lowly $33.74 billion it touched in the first six months of his arrival – a rise of 346.28%! What about 'unhappy' employees? Lafley confesses, "The company has no right to be happy unless 'the boss' is happy."

So is having a hard work demanding boss the wrong thing to happen to an employee? Absolutely not, as Prof. Julian C. Daizel of The Moore School of Business (University of South Carolina) wrote in Discover The Diamond in You (a Planman Media publication) in an article titled, 'Lead, Follow or Get out of the Way',

"At one stage of my career with a major multinational corporation, I worked for a boss whose views were clearly in the "task first, everything else second" camp. This is not to say that he was a bad boss or not a caring person – quite the opposite. He was probably one of the best bosses for whom I had the privilege of working."

In a column that Prof. Warren Bennis of the Marshall School of Business of the University of Southern California wrote for Discover The Diamond In You in August 2011, titled, 'An Inglorious Road to Success: Work Hard, Get Lucky and Stay Alive', he observes how it was hard work besides ambition, that "got an a kid from a blue-collar family to work with so many accomplished people in such intellectually stimulating places". This is what he states, "Looking back, I've come to realise that inglorious factors drove my career: an aching desire to make something of myself, simple hard work and those proverbial 10,000 hours of practice. Luck begets luck: Like the rich getting richer in the Gospel of Matthew, those with early successes are rewarded with ever-expanding opportunities. After I discovered what I felt passionate about – leadership, change, and creative collaboration – people began leaning close to hear my thoughts on those subjects. You're too busy to notice at first, but once that begins to happen, something miraculous occurs. At some point, you discover that you have, to paraphrase Tennyson, become a name. And all you did was work hard, get lucky, and stay alive."

Bennis, when he refers to the 10,000 hours of practice, could well be quoting from the world-class best-selling book 'Outliers: The Story of Success' by Canadian

BECAUSE OF MARK HURD'S NON-NEGOTIABLE FOCUS ON DEMANDING SUSTAINED SINCERITY, HP'S M-CAP SOARED

journalist Malcolm Gladwell, where he talks about the 10,000 hour rule – that it takes 10,000 hours of sustained practice to succeed in any field.

One quote from the best-seller 'Thorns To Competition' (authored by Rajita Chaudhuri and Arindam Chaudhuri, 2011) still remains vivid, "It took 20 years of hard work to create an overnight success."

Mentioning Jack "Neutron Welch" as "a tough taskmaster" would be a cliche. But it's still important to note that Jack was well renowned for his often most displeasing "handwritten notes on performance" to employees, throwing out even passionate people at will, if they didn't have sustained sincere attitude towards work. When Jack retired, GE's value had increased by an astonishing 2,729% to $410 billion!

In the 2009 Conference Board Review paper titled, 'Why Americans don't trust CEOs', Jason Jennings, author of the best-seller Less Is More notes that "strong leaders should be: straight talking, hard-charging, tough taskmasters..." Many say like AIG's former boss Hank Greenberg, who built a $99 billion financial-services empire (before Martin Sullivan, his successor destroyed it) – BusinessWeek calls Hank "the impatient and prickly leader, who could yell at people even while cycling furiously on a stationary bike!"

For too long, we have been a nation purporting the myth that companies should protect employees, give them brilliant and amicable working environments. No

more! It is time to call the ridiculous bluff and to realise that without being the worst taskmasters and slappingly demanding sustained sincerity from employees, we can never become world class and globally benchmarked!!!

But hey, all said and done, research could go to hell, what about our personal lives – and the ever growing potbellies? We still had the Damocles' predicament hanging on our head at the gym. Who could ensure our potbellies could be zapped away with sure shot guarantee? Was the ungodly taskmaster Beastus Maximus really a better choice as our trainer or was our hero going to be the genteel Don Juan de Marco? We were confused and undecided through the day, until dinner when we met our friend – who had sometime back rid himself of his potbelly almost unbelievably overnight. We asked him what choice would he have made in such a damning situation? "Kapalbhati," came his lightening reply. Taken aback, we said, "Kapalbhati?!? What in crazy heavens is that?!" He coolly replied, "It's a yogic breathing technique." We stammered back, "But how can a breathing technique help you to get rid of your potbelly overnight?" He smiled mystically, and said, "Suck the damned potbelly in guys, that's what it teaches you!"

15
YOUTH

"AL GORE, SUCH A BORE... Y;A;W;N..."

It was a classic statement drawled out by a group of CEOs for whom we were taking a joint strategy workshop. And the reason for their diatribe was our conjecture that Gore, though himself on the golden side of 60, is perhaps the most stellar advocate of the thundering power of youth, and that it would have been wonderful to have a similar apostle in the business arena too, championing the cause of not only recruiting youth, but also giving them exceptionally responsible positions! Our workshop's CEO fraternity asserted that age, and not youth, was the most important asset, as with age came experience & performance. Guess what, we decided to check it out!

It was the spectacular Dun & Bradstreet survey at the

NOW ABOUT 15% OF AMERICA'S CEOS, PRESIDENTS AND COMPANY OWNERS ARE IN THEIR 20S AND 30S

turn of the decade that caught our eye, which statistically documented that now, about 15% of America's CEOs, Presidents and company owners are in their 20s and 30s, a figure that "would have been unthinkable a decade ago." Even the most respected Roper Starch Inc.'s industry quoted survey shows how an unbelievable 67% of American workforce now accepts that "the new century is all about youth" and that "increasingly, people in their 20s and 30s...will take over key roles in business and society." When workers struck work across GM's factories in 1998, guess what the union's main grouse was? The fact that the supervisors of all the workers were much younger than the workers themselves!

An Economist magazine research quotes how Bill Gates has ensured that while "Microsoft's most important employees are its programmers," the same bunch, in a humongous majority, "are now in their 20s and early 30s." Corporations like GE, P&G, GM, Philip Morris, Siemens etc have now started "reverse mentoring" programmes where younger employees coach older ones, than vice versa.

The mercurial Spencer Stuart 2008 Route To The Top CEO Survey shows how the average age of CEOs is continuously falling – while in 1980, 51% of Fortune 100 CEOs were aged 60-69, today that figure has plummeted to 19%, and those aged 59 or below (even for S&P 500) has increased to a whopping 80%! ILO's

'Global Employment Trends For Youth' report proves how increasing the youth employment rate by even 9% will thunder up the global GDP by up to an estimated $3.5 trillion. Imagine the electrifying possibilities for developing nations, which, according to ILO, are home to 85% of the world's youth.

But what about the worry that 'the younger they are, the faster they quit'? The fact is that if a company sincerely appreciates performance, rather than age (and ruthlessly kicks out non-performing individuals, whatever their seniority or age), all such fears of youth jumping the ship will be quite unfounded. The internationally acclaimed Deloitte 2007 CEO survey shows that of all the factors contributing to a company's growth, the retention of "high quality employees" (and not "highly experienced employees") was placed at the numero uno position by CEOs. Even the Deloitte 2010 CEO survey revealed that "retaining sufficient workers with the relevant skills will be important to ensuring sustained profit growth" going forward. Think about it, the factor of having "sound business strategies" actually came second!

And if you succeed in retaining quality personnel, guess how much loyalty is possible (and we're repeating this research a third time in this book, given its brilliant finding) – a mind numbing 81% CEOs of the top 100 US firms have never worked anywhere else (or maximum, changed just one job in their life). Forbes quotes how a monumental 75% CEOs of leading non-US corporations have spent 35 years or more with the same company they lead. Take that for loyalty! Amusingly, the global KPMG Fraudster Survey 2011 'Who is the typical fraudster?'

shows how the age group of 18 to 25 years gave rise to the minimum percentage of fraudsters (a puny 2%). So how should the young employees be handled by CEOs?

Kris Gopalakrishnan, Chairman of Infosys, while talking to Business & Economy magazine (a Planman Media publication) in October 2011 says, "You need to respect the individual, give them the space & appreciate the work they are doing. Young people do not work today just for the money; they work because it is the right thing to do. They can associate themselves and identify themselves with the process and things like that. It is slightly different from the command & control structure, which has to be adjusted for the new generation. If they don't feel that their voice is heard or appreciated or if they are receiving adequate training and development with some given space to operate, they will not identify themselves with the company and you will not get 100% output from them."

Putting a stamp on Infosys' focus on and handling of young employees, Peter Capelli, Director of Wharton's Center for Human Resources, tells The Human Factor (a Planman Media publication) that, "The youth do have different interests and needs – there is more concern about doing something important and making your mark, more concerned about development. It makes sense to pay attention to that and manage around it. Good examples of such initiatives include the campus-like atmosphere of the Infosys training centre, which looks and feels like being in college, making it easier for new hires from college to make the transition to a corporate job."

Larry Ellison started Oracle when he was 32 years

old (in 1977); Paul Vincent, founder Motorola, was again 32; Akio Morita founded Sony when he was 25; Bill Gates was 20 years old when he founded Microsoft (1975); Steve Wozniak and Steve Jobs were 20 years old when they started Apple (1976); Larry Page & Sergey Brin were 24 years old when they started Google (1998); and all of them have believed fanatically in the power of youth. Consider this – while Google's headcount was just 350 employees a few years back, the same is now a smashing 28,768 (as on June 30, 2011), and its first employee is still around; meanwhile its share price has thundered up from $4 in 2003 to $501.51 as on October 1, 2011, a soul stopping 12,400% increase!!! Fortune gave the final stamp by stating that youth "are ambitious, demanding, and question everything!" – a stamp that would make Al Gore proud.

"THE AGE GROUP OF 18 TO 25 GAVE RISE TO THE MINIMUM PERCENTAGE OF FRAUDSTERS," KPMG FRAUDSTER SURVEY 2011

The final call: you simply cannot disregard the energy, excitement, enthusiasm and electricity that youth brings to the table. Yes, experience does allow the raw and wild energy of youth to be tempered. But then, there has to be an acceptance within the organisation that youth should be encouraged fantastically; and those that are top performers, promoted at double speed even beyond decade old experienced hands.

16
EMPLOYEE SATISFACTION AND FIRING

TO HELL WITH ALL THOSE EMPLOYEES!

Don't blame us for that gregarious statement, blame the CEOs of leading companies of the world, who have dramatically increased shareholders' wealth and even employee satisfaction manifold in one electrifying shot by the simplest of simple strategies – by royally kicking out thousands of their employees! Astounded at the paradoxical statement? Eat this: When HP decided to cut 14,500 jobs by the end of 2006, its share price continued rising by more than 50%. And the scenario has been the same throughout recent history since 2000. Honeywell International threw out 6,500 (5% of their workforce). Lucent Technologies – 20,000 workers! Kodak – 37,000 jobs. The highly profitable AT&T – 24,500 workers! And

FIRMS THAT HAD MORE THAN 70% EMPLOYEE SATISFACTION GAVE SHAREHOLDER RETURNS 240% MORE THAN INDUSTRY AVERAGE

the father of all retrenchment drives, "Neutron" Jack Welch, threw out a soul stopping 500,000 people from GE and subsidiary firms (Multinational Monitor data); GE is the only corporation that has ever featured continuously in the topmost ranks of the Fortune 500 list ever since its inception in 1955, having contributed the maximum regular returns to shareholders internationally.

Closer home, in their Indian operations, Tata Steel brought down its employee count in from 77,000 plus in 1994 to 39,000 by 2005. Currently, the figure is at 34,912 (March 2011). Tata Steel is now the 9th most profitable corporation in India, as per Business & Economy Power 100 list 2011.

So how in heavens does one resolve the utterly confounding relationship that an increase in the number of layoffs increases "employee satisfaction" by leaps and bounds; which consequently makes the shareholders' wealth skyrocket? Firstly, the connection between employee satisfaction and shareholders' wealth has been proved through innumerable surveys – with the undisputed authority being the benchmark annual 2006 Sirota Consulting's 'Enthusiastic Employee' report (Wharton School Publishing) with a hugely statistical dataset compiled since 1972 till date, comprising "millions of employee responses" from predominantly Fortune 500 firms. In one splendiferous research on 750,000

employees, the survey reveals how, in 2005, firms that had "higher than 70% average employee satisfaction" showed shareholder value increases that were more than the industry average by a colossal 240%.

And those that had low employee satisfaction gave shareholder returns that were despicably 188% lesser than the industry average (In 2004, the figures were a positive 267% and a negative 170% for high and low employee satisfaction corporations respectively).

Even the world renowned Watson Wyatt survey proved how "employee satisfaction mattered" too significantly to increasing shareholder value, and how "companies that ignore it, do so at their financial peril and that of their shareholders." Alex Edmans of Wharton School in a report titled 'Does the stock market fully value intangibles? Employee satisfaction and equity prices' too proved that "firms with high levels of employee satisfaction generate superior long-horizon returns, even when controlling for industries, factor risk, or a broad set of observable characteristics."

But what froze us right in our tracks was the incredibly chilling and mind moving study of Stark and Mallory (Harvard Business School, Working Knowledge), which, once and for all, proved that "employee commitment and employee mobility are NOT inversely related" and that even with high levels of turnover, an organisation would and could still consist of highly committed workers. "How's that?" you might exclaim! As mentioned before, the ever referred to research, 'The New Workforce Reality' (now considered a commandment on factors affecting employee satisfaction), a collaborative study

by the Simmons School of Management, showed how a stupendous 80 to 90% of employees in organisations globally considered four factors – "rewarding of good performance," "the organisation treating everyone fairly," "opportunities for promotion," and "learning opportunities" – as being the most important factors defining their "Ideal Job". Astoundingly, 'job security' did not even find a mention in the massive study!

So where's the connection? For that, we go back to some findings we mentioned in the previous chapters. Gut wrenchingly, excellently performing companies don't even give priority focus on employee satisfaction (KPMG 2005 International Survey), rather, simply on 'fairly' rewarding great performances and providing learning and promotion opportunities! Because outstanding CEOs know very clearly that for productive employees, those are not the financial salaries and monetary perks that keep them satisfied; but a fair and logical assessment of performances, not just their's but of everybody around them, where promoting or protecting an incompetent employee – however 'committed' the 'unproductive' employee might be – results in mass dissatisfaction. This was also found true in the experience of Dr. Wilfried Aulbur, the former Managing Director of Mercedes Benz India Ltd., which he shared with The Human Factor in July 2010.

One of his key targets in India was to fight attrition in Mercedes' Indian operations, which was then pegged at 16%. He came in and within a couple of years had reduced it to 6-7%. How did he do it? Not by implementing plans that increased employee satisfaction or by reducing the firing

count. This he did by putting in place plans that rewarded the employees for their hard work and performance and enhanced their skills through training and educational programmes. This is what he confirmed to us: "The detailed analysis undertaken by me and my team to understand better the aspirations of Indian employees and pay heed to their deep desire to make a difference to their resumes through the kind of work they do, leads us to a conclusion that money is more of a hygiene factor for the employees."

EVEN WITH HIGH LEVELS OF EMPLOYEE TURNOVER, AN ORGANISATION WILL STILL HAVE HIGHLY COMMITTED EMPLOYEES

Even today, excellent CEOs continue, ruthlessly, to throw off unproductive yet committed employees, year after year. GE throws out the bottom 10% of its workforce every year. Think that's high? Consider this: forget retrenchments, even the voluntary annual turnover rates of US firms now touch over 30% (Manchester Consulting study).

Surely, when you talk about employees, firing is something which does not seem right. Well, it is. There are two names that we would like to take in this respect.

The first is Jack Welch, who is perhaps the first one in the world to demand that 'firing' be termed as a formal corporate strategy! As we mentioned earlier, Fortune magazine nicknamed him "America's Toughest Boss." This apart from him additionally winning Fortune's "Manager of the Century" title for four years in succession (1998 till 2001) and the Financial Times award of being the

"World's Most Respected Business Leader!"

When people asked him his number one management rule, he said that throughout his forty years with his company, he followed the 20-70-10 philosophy! He broke up his employees into the best performing ones (top 20%), the average (middle 70%) and the worst (bottom 10%). He praised the top ones as the company's stars, asking others to follow them. He mentored the middle 70%, educating them what they needed to improve to become stars. And the bottom 10%? He fired them! Once at MIT, he said firing was "the kindest form of management." He fanatically promoted that "cruel management is when you're sweet to the bottom 10% people and let them stay." He was resolute that firing is "right for everyone; the organisation becomes more competitive as you upgrade the talent." In his first five years as the CEO, he fired 100,000 people. By the time he left, he had fired more than 500,000 people! When he took over as the CEO, his company was America's eleventh largest. When he retired, it was the largest!

Though Jack did not found GE and never invented its core products himself, he taught the organisation the most important management rule of the past, and even this century: firing!

Ironically, the second stalwart whom we are going to eulogise got fired from the very company he founded, a company whose products (almost all) were personally invented by him! Steve Jobs is our protagonist for the umpteenth time. When Jobs got kicked out, he was left with just one share of the company! Ironic, did we say?! In 1996, exactly ten years after he got kicked out, this

man came back to his company as the interim CEO (the board got him back as the last resort); a company that was – according to most industry experts – a truly dead company going down south at that time. And what did this man do? Reported to be "tyrannical towards his employees," this CEO often utilised "public humiliation," firing poorly performing people at free will! It is reported that he could "enter a meeting room full of employees, call their work 'sh#t', and then fire them all on the same spot!"

In true reality, top employees of his company were scared spineless of travelling with him in the same elevator, because by the time they got out, they could be fired! He was listed as either primary inventor or co-inventor in 338 of his company's product patents; and he fired almost all inventors of non-useful ("sh#t products," as he calls them) patents! Almost bankrupt when he came back, his company now is worth $340 odd billion dollars (November, 2011). Fortune lists his company in this current year of 2011 as "America's Most Admired Corporation" and the number one computer company! Jack Welch called him "The most successful CEO!" We know him as the late Steve Jobs; founder of Apple!

Your new core strategy! Firing!

World famous Sirota Consulting empirically found out that today "companies do a poor job of facing up to poor performers; it's always the most negative finding." A classic Forbes 2005 report confirms how "employee retrenchment actually increases loyalty!" And how's that? Noted BCG consultant Grant Freeland confirmed in his BusinessWeek report, "Few things demotivate

BOTH JACK WELCH AND STEVE JOBS WERE RUTHLESS TOWARDS INSINCERE EMPLOYEES AND USED TO FIRE AT WILL

an organisation (and its top performing employees) faster than tolerating and retaining low performers." The famed authors Chris Edwards and Tad DeHaven of Cato Institute statistically postulate that "poor performers can have a disproportionately large and negative effect on an organisation."

Even at the CEO level, as Booz Allen Hamilton reports, "Underperformance is the primary reason CEOs get fired." Their summer 2007 report shows how even shareholder returns improve significantly when poorly performing CEOs are axed.

The top companies of the world have been firing thousands of low performance people every year... There's no second view! If you want your company to one day be the most admired company in the world, if you want to one day be counted as the number one globally, there's only one rule you should follow like a mad man. Be the kindest manager! Fire at will! Shamelessly!

17
HEALTH

FEMALE BOSSES ARE BETTER FOR EMPLOYEE HEALTH!

The smirk on our face all but got wiped out when we saw the University of Colorado 2005 report 'Worker wellbeing and supervisor gender' which confirmed beyond doubt that "working in a more female dominated environment" was truly beneficial for employee health! Chauvinist that we were, we couldn't digest the fact that finally, to get 'healthier', we had to work under – of all blistering barnacles – a female boss!!! We mean, there obviously had to be better methods to get healthier than getting fried in the devil's pan, right?! And there began our quest to escape perdition.

In fact, if one thought that not having a female boss

PRODUCTIVITY LOSS IN US FIRMS RESULTING FROM SMOKING RELATED DISEASES COSTS A STAGGERING $157 BILLION EVERY YEAR

would lead to productivity losses, the National Business Group on Health [representing 185 companies, primarily Fortune 500 firms covering more than 40 million workers...] shows how, for US firms, "...productivity loss resulting from... smoking related diseases cost a staggering $157 billion every year." [In fact, the Purdue University's Health Care Special Report puts this at a killing $234 billion]. This dirge is just the tip. The US Office of Technology & Assessment conclusively proved in 'Burden of Tobacco on Your Workplace' that smokers averaged a whopping 300% more sick leaves than non-smokers. Seattle University showed how "the propensity for smokers to become disabled and retire early is almost 600% greater than for non-smokers!"

But what left us stunned was this incredible research of Cappelli, Pauly & Lemaire of Wharton, 'The Effects of Obesity, Smoking & Drinking...' who quote that "obese individuals have 30%-50% more chronic medical problems than those who smoke or drink heavily!"

We have always believed that the best leaders are obsessive about employee health and fitness. From making employees quit smoking to making them drink to limits to making them hit the gymnasium in order to fight obesity - the biggest killer disease in the world that is almost always curable; they do it all! Forcefully! And we suggest if need be, link it to pay! The authoritative US National Bureau of Economic Research and Chicago

GSB confirm in their benchmark September 2008 paper that "expenditures on health care in the US are likely to rise from a current level of about 15% to about 29% of GDP by 2040." That is a mind boggling $3 trillion even at current prices! So are global firms getting worried? Hewitt Associates' April 2007 survey found out after surveying 8 million workers that now 77% of firms are "profiling chronic health conditions prevalent in their workforce!" This figure was a mere 43% just a year back. Without doubt, employee health & productivity are perfectly correlated! Period! GEMI, a top non-profit research firm with Fortune 500 firms as members, irrefutably proves in 'Clear Advantage: Building Shareholder Value' that excellence in health [and even environment and safety issues] can add dramatically to shareholder value by almost 50 to 90%, apart from reducing operational and capital costs [16% less for high performing companies, as per the noted Towers Perrin '2008 Health Care Cost Survey'].

So who should take the blame for all the productivity losses occurring due to bad health habits? The big league Watson Wyatt covered 5 million workers in their stupendous 2005/2006 survey 'Staying@Work: Employee Health...' and established that a compelling 74% of organisations believe that "their employees should be held accountable." Weyco Inc, a top health care firm, now has a policy of throwing out employees even if they smoke at home. BusinessWeek's February 2007 cover story shows how the 'totally-smoke-free' $2.7 billion Scotts Co. throws out its employees for failing nicotine detection tests [for which, Jack Welch exclaimed

to Scotts' CEO Jim Hagedorn, "Man, you have balls of steel!"].

Clearly and obviously, irrespective of whether you have the two metallic spheres, it's the CEO's job to take the lead in autocratically forcing the organisation to follow the healthy path. Of course, you yourself would need to kick the butt and hit the gym to ensure you lead by example – that's precisely the reason the cigarette addicted Barack Obama is not able to convincingly talk against unhealthy practices. You as a CEO, can't be like that.

Place it in your employment rules that a focus on following healthy habits is non-negotiable. Define extremely clearly what do you mean by healthy habits. Follow globally defined standards of ILO and WHO; and don't bend down to group speak even a bit. And for the employees who deliberately do the opposite, or those who're addicted to unhealthy practices, educate them, train them, force them to undergo deaddiction programmes, and put them on an increasing warning process.

And when even that doesn't work, just fire them. That's the mark of a truly committed CEO. The losses due to unhealthy practices affect not only the individual, but the whole organisation and its employees. There can be no excuse for pardoning that.

18
WOMEN CEOS

POOR CEOS BUT EXCELLENT MANAGERS?

"Wonder why there are less than 10 women CEOs leading America's top 500 companies (by revenues) today? Women CEOs aren't effective!" Is that a statement fair enough to the fairer gender? Let's see how 'fairly' have the corporate world and shareholders globally treated women CEOs, and how has the Fairer Sex Inc. treated shareholders et al, especially after so many years of liberalisation... women's liberalisation!

What could be the reason that internationally, a woman CEO or top manager almost always gets the shortest end of the stick, if not the boot itself (Carol Bartz, the CEO of Yahoo! being the latest casualty)? Is it because lady CEOs in reality perform worse than

A FEMALE CEO'S APPOINTMENT LEADS TO A GIGANTIC 640% MORE WEALTH EROSION COMPARED TO A MALE CEO'S APPOINTMENT

their male counterparts? Let's start this testy feverish debate by analysing the combined shareholder wealth created in recent history by the world's topmost lady CEOs – Carly Fiorina (former CEO, HP), Jill Barad (former CEO, Mattel), Anne Mulcahy (former CEO & Chairperson, Xerox), Cinda Halman (former CEO, Spherion), Andrea Jung (Current Chairman & CEO, Avon), Andrea Russo (former CEO, Lucent), Brenda Barnes (former Chairman & CEO, Sara Lee). The figure is equivalent to a most depressingly 'negative' $208 billion – a colossal 76% reduction in the original value of the companies – an amount equivalent to around a quarter of India's GDP! Hilariously, PepsiCo global Chairman and CEO, Indira Nooyi's innocent quote – "America is a totally meritocratic society. You perform, you get rewarded!" – might actually hold more meaning than intended.

The fact is that even the mere announcement of a woman CEO being appointed results in more shareholder value destruction than perhaps the worst male management decision. Digest this! The benchmark 2006 Wharton study – Diagnosing Discrimination: Stock Returns and CEO Gender – shows quite amusingly how a female CEO's appointment itself leads to a gigantic 640% more shareholder wealth erosion than when a male CEO is appointed. Comparatively, even in India, the hallmark B&E March 2007 India's Angels study of BSE firms proves

how having women CEOs is no guarantee to beating market averages of stock performance (worryingly, 50% of women CEOs studied eroded shareholders' wealth). In fact, the study went on to prove that shareholder value of a disappointingly huge 75% of firms having lady CEOs was beaten by even the BSE Sensex.

Is it any wonder that the number of Fortune 500 companies having lady CEOs is just 12 (as per Fortune 500 list 2011)? And that closer home, out of the 5,086 companies on the BSE (as of August, 2011), only ten firms are led by women? Or that since 1992, the Standard & Poor's 1500 list of the world's top firms has had lady CEOs at the helm only a minuscule 1.5% of the time? Or that internationally, top women CEOs are paid around 33% lesser than top male CEOs? But most interestingly, while women as CEOs seemingly devastate shareholders' wealth, the same ladies, in other senior management positions, actually add to shareholder value.

The February 2007 findings of the most-respected New York based advocacy organisation, Catalyst Research, shows indubitably that Fortune 500 companies with more women in senior positions outperformed the average market shareholder returns by 35%. At the same time, according to the spectacular March 2007 Grant Thornton study of thousands of firms (representing a whopping 81% of global GDP), almost 40% of businesses globally refuse to have any woman in senior management. But most shocking is that even developed countries like USA and Italy are actually showing a drastic fall of beyond 6% in the number of senior lady managers. In India, the hallmark

2005 CII study (Women Empowerment in the Workplace) revealed that while a mere 16% of junior level managers were women, this ratio declined to a dismal 4% for senior management positions, and to a pathetic 1% for CEO positions. Even 'The Corporate Gender Gap Report 2010' by World Economic Forum reveals that "Female employees tend to be concentrated in entry or middle level positions — that is, the more senior the position, the lower the percentage of women."

After this ignominy filled ode, we must add that this is what we believe and research proves in general on an average; but it in no way means that women can't make capable CEOs or that all of them are incapable. Given the amount of time they have to balance on various fronts (family along with work) makes their job all that more tougher. Having said that, here is the flip side! And this we believe in completely and apply to our organization passionately. Regardless of whether women make great CEOs or not, as the 2007 Catalyst Research report shows, they make exceptional mid level and senior level managers. And dare we say, we believe that they make better managers than men at such levels where the work is well defined and does not require strategic thinking and vision. The reason they out-score men is because they are in general far more focused and sincerer than men. While men try to score brownie points with colleagues by wasting time on frivolous things, women who are career oriented are more of the no-nonsense variety. They are target oriented, far more honest and trustworthy. Every job entrusted to them, delivers better results on an average, especially wherever sincerity is a key factor.

The same is our belief when it comes to even high pressure sales jobs! Women who chose the dog eat dog world of sales, deliver better results invariably, a reason why worldwide they score better marks in school and college examinations. So if you want your jobs on targets with full sincerity, you might do well to find out the right kind of driven women for the same! However, when it comes to jobs involving strategic thinking at the CEO level, the same idea could in general prove riskier!

FORTUNE 500 FIRMS WITH MORE WOMEN IN SENIOR POSITIONS OUTPERFORMED THE AVERAGE MARKET SHAREHOLDER RETURNS

SECTION 2

BUSINESS STRATEGY

THIS SECTION IS A COLLECTION OF OUR THOUGHTS, BACKED UP BY EVIDENCE AND RESEARCH, ON SOME OF THE MOST CRUCIAL STRATEGIES RELATED TO RUNNING YOUR BUSINESS AND UNDERSTANDING THE COMPLEXITIES OF ITS VARIOUS FACETS TO HELP YOU BECOME THAT RARE, SUPER SUCCESSFUL CEO!

1
GLOBALIZATION

THE DUMMIES GUIDE TO GLOBALISATION

First question: Is globalisation really necessary for companies? This one's actually a no-brainer. A year 2006 Accenture report, 'Expanding Markets: Innovation and Globalisation' commented that "the best performers [worldwide] were 83% globalised, while the average performers were only 18% globalised." Another 2009 report by Accenture titled, 'Strategies for achieving high performance in a multi-polar world: Global choices for global challenges', after surveying business leaders from 375 companies, representing all major industries and 53 developed and emerging markets, concludes, "High-performance businesses join battle in new and distinctive ways in each of these competitive and interdependent

"GLOBALISATION IS ONE OF THE THREE ESSENTIAL STRATEGIES TO BUILD COMPETITIVE ADVANTAGE FOR ANY MNC," BARTLETT, HBS

dimensions of the multi-polar world. Evidence from our research demonstrates that high-performance businesses distinguish themselves with a globalisation strategy that is conceived and executed in a new and consistently different way. They discover new fulcrums of growth, cost efficiency and risk management in the multi-polar world, develop them and work them into the fabric of their businesses."

Writes Prof. Christopher A. Bartlett, the Thomas D. Casserly Professor of Business Administration, Emeritus, at Harvard Business School, in the August 2011 HBS paper titled, 'The Death of the Global Manager', "There are three core strategies that any MNC has to pursue to build layers of competitive advantage. The first is to use worldwide operations to build global scale efficiency. If you're Ford or Toyota, for example, you have to compete in the world market to capture the minimum efficient scale. The second requirement, often in conflict with the first, is a sensitivity and responsiveness to national differences. It's a closeness to the market that enables you to adapt and modify, not just produce one single, standardised product. The simplest example might be the need for a right-hand drive Toyota Corolla in the UK. The third imperative is to leverage the world for information, knowledge, and expertise. The latest consumer trend or technological development may be emerging in Germany or Japan, not your home market. Having eyes and ears

around the world is critical, as is having the response capabilities to tap into the best and brightest, wherever they may be. Companies can no longer assume that all the smart people in the world are born within a 20-mile radius of their headquarters."

Globalization works! And like crazy for business corporations! Let's get that argument over with at the start itself, lest the heading should have given a contrarian viewpoint.

The highly acclaimed classic neo-IT 2006 study titled 'Globalization and the Impact on Shareholder Value and Revenues' stupendously devastated bastions of intemperate critics. The study, which compared the neo-IT SG Index of the 30 most globalised Fortune 500 companies against the S&P 500, once and for all proved how companies that globalise their service offerings "create more value for shareholders than companies that don't globalize!" The differences were not just dramatic, but electrifying! Even during 2004 and 2005, the scintillating globe-trotting Fortune 500 giants showed shareholder value increases that were an eye-popping 204% more than that of S&P 500 firms.

In fact, companies that are highly engaged in services globalisation, experience higher profitability ratio than those which are not. Analysing data for FY2005, the study concluded that the ratio stands at 15% and 6.5% respectively. A March 2008 report by IBM, titled, 'Integrating the Finance organisation for global business', proves how globalisation has come as a boon for corporations around the world. It states, "Globalisation has had a profound impact on business. By enabling

companies to tap into a worldwide network of talent and resources, it has allowed them to drive efficiency across business activities, focus on what they do best and seize new, lucrative business opportunities. Globalisation has forced positive change on even the most sacrosanct business models, compelling companies to rethink existing supply chains, for example, and replace them with more efficient global models. Globalisation has created new markets and increased operational efficiency."

In a February 2011 interview published in Business & Economy magazine (a Planman Media publication), Kris Gopalakrishnan, who was then the CEO of Infosys and is currently serving as a Chairman, voiced out loud in favour of globalisation. He explained how taking Infosys global has improved efficiencies for the company and has helped it grow tremendously. "Internally, we call it Infosys 3.0. Initially, it was all about establishing the global delivery model as a viable alternative to the way services were delivered initially. We did this through technology services – application development and maintenance (in the 1990s). Then we looked at scaling that up and introducing many more services using the global delivery model. The third phase is actually becoming strategic partners to our clients. In this phase, it is important to set up centres across the world, in locations like India as well as in the market to satisfy the requirements of our clients. The first set of requirements is around front end services – consulting, system integration – we are expected to identify the business problem, recommend solutions, design the solutions, and implement the solution end to end.

"COMPANIES THAT GLOBALISE CREATE MORE VALUE FOR SHAREHOLDERS THAN COMPANIES THAT DON'T," NEO-IT 2006 SURVEY

"In order to do that, we need local resources. System integration requires local resources. When we deliver this, they expect 24/7 support, in local languages like Chinese, Japanese, French, German et al, which cannot be provided from India. We have centres in Czechoslovakia, Poland, China, Mexico, Philippines, et al. So we have created them for two reasons – local language support and 24x7 support – 'Follow the Sun' strategy. Cost advantage comes from delivering services remotely from lower cost locations. Here, it will be the right cost. From China it will be China price, from Philippines, it will be Philippines price and so on. By allowing us to combine these delivery locations, we are able to provide a cost advantage. For consulting service, it is the local price. End to end cost will be still down as we are combining these locations. Earlier, it was being delivered by a local consulting company. We can deliver this now. We will not be more expensive or cheaper; but we will provide a better service, so they get a single partner doing end to end. We will develop the idea to the implementation," Kris commented said.

For Indian companies, the need to go global is the need of the hour. While stressing on this necessary condition, Kwang Ro Kim, Vice Charman, Onicra, former CEO, Videocon and LG India, had told Business & Economy magazine, during an interview in 2011, that, "The local market is not so big. It's a myth [that the Indian market is huge]. India's GNP is just the size of Korea. How are

Indian companies more self content?" In other words, it's clearly important that a modern day CEO sets his sights towards global markets.

For those who are worried about the risks attached with going global, Profs. Mauro F. Guillen of The Wharton School of the University of Pennsylvania and Emilio Ontiveros of the University of Madrid, have an answer. In a 2011 B&E column titled, 'Strategic shifts in a new global economy'" they write, "The new global economy presents many opportunities and challenges. Fortune favours the prepared, and we know from experience that some firms do better than others, especially when conditions are adverse or risky. Looking towards the future, the right attitude is not to avoid risks, because the best opportunities might be located in risky places. The right approach is to develop the capability as a business to operate in different parts of the world, even risky ones, carefully adapting human and capital resources to the requirements of the situation."

And if the worry were that globalised companies would not be able to handle cross-continent diversified businesses – as has been spouted by the 'core competence' bandwagon of obstinate 'intellectuals' across the world – the stellar study, 'Managing For Value', by the Boston Consulting Group in 2007 decimated the myth that globalised conglomerates focusing on fewer businesses provided superior shareholder returns. BCG studied the world's largest 300 firms across US, Europe and Asia, and after a detailed analysis proved that, "diversified firms that outperform the market often produce substantially higher shareholder returns than focused companies that

beat the markets."

Globalisation therefore does help. And for those companies who want to trap themselves within national borders and their local markets, this comes as a gentle warning. We move to the second question now. Is India globalized?

Contemporary thought somehow propagates that India has already 'been there, done that' and is truly globalised. Wasn't India one of the first Asian countries to embrace the philosophy of globalisation? Isn't the world falling over itself eulogising the nouveau globalised India Inc.? Isn't India Inc. the reason we are rated now as one of the topmost globalised countries of the world?

The answer might surprise you. We perchance found no better a study historically on globalisation than the Carnegie Endowment and A. T. Kearney exemplar dissertation, 'The Globalization Index', which most analytically ranks various countries of the world on a multitude of parameters, finally providing the consolidated Globalization Index (GI) ranking. So at what position do you think India is ranked in terms of being a globalised nation? Second from last in 2007, the most recent available report!

It's mind boggling and unbelievable that countries like Algeria, Bangladesh, Tanzania, Pakistan, Colombia, Kenya, Peru, Nigeria, Sri Lanka, Thailand, Senegal, Vietnam, Morocco, Ukraine, Botswana, Tunisia, Uganda, Chile, Croatia, Panama and innumerable more are miles ahead of India. Despicably, even in 2006, and the year before that, India had been knighted with the same rank – second last! The index also shows how the rank of India

"THE RIGHT APPROACH IS TO DEVELOP THE CAPABILITY AS A BUSINESS TO OPERATE IN DIFFERENT PARTS OF THE WORLD," WHARTON, MADRID UNIVERSITY

in terms of FDI is – you won't believe it – sixth from the last! In telecom usage, India is third from bottom! And similar are the various ranks of India across parameters. The 2011 ranking of globalization of economies titled the 'KOF Index of Globalization' (by the Swiss Federal Institute of Technology, Zurich) proves why the Carnegie Endowment and A. T. Kearney are spot on.

As per this 2011 report, which measures the final Globalisation Index based on a measurement of the three main dimensions of globalisation – economic, social and political, overall, India is ranked 116th out of 156 nations (In 2010, India was ranked a slightly better #111). Nations like Moldova, Oman, Kazakhstan, Azerbaijan, Kyrgyz Republic, Albania, Nigeria, Zambia, Gabon, Samoa, Armenia, Gambia, Algeria, Mongolia, Botswana. Sri Lanka, Pakistan, Senegal et al, occupy ranks that are above that of India's. In terms of 'economic globalisation' and 'social globalisation', India is ranked worse – at #122 and #150 respectively (In 2010, the same rankings for India were #122 & #147))! There are more shockers.

As per IMD International's 'World Competitiveness Scoreboard 2011', India is ranked #32 out of 59 economies; Wall Street Journal's '2011 Index of Economic Freedom' ranks India 124 out of 179 countries. Enough numbers to disprove the optimism that is brought in

by reports that Indian corporations have any chance of being termed economic superpowers, anytime soon.

So where lies the blundering mistake that India is committing? The answer – though extremely simple – is almost a slap on the face of policy makers. India has miserably failed to encourage the philosophy of entrepreneurship, the most key factor that can radically catapult India's globalisation quotient, a factor which stalwarts like Ratan Tata, Kumara Mangalam Birla, Azim Premji, Narayan Murthy, Sunil Mittal et al, swear by day in and day out, but unfortunately a factor that policy makers and the majority of India Inc. ignore haphazardly!

Columbia GSB's incisive study titled, 'Role For Entrepreneurship in India', reports how while the US entrepreneurship system "has been quite successful" for their economic growth, Indian entrepreneurs actually might "hinder economic development!" Even in a place like Bangalore – ostensibly India's Silicon Valley – entrepreneurs were playing a "possibly negative" role in the Indian economy! And the blame, according to the report, lies on governmental policies.

Against this, imagine how the West most shrewdly uses India to its benefit. The 2007 report by scholars Vivek Wadhwa, Ben Rissing, and Gary Gereffi of Duke University and AnnaLee Saxenian of the University of California, Berkeley, prepared after studying engineering and technology companies started in US from 1995 to 2005, titled, 'America's New Immigrant Entrepreneurs', shows that during the decade, Indian immigrants filed the second highest number of patent applications (more than 10,200), founded the highest number of manufacturing/

innovation-related service firms in the US (24%), and founded the highest number of bio-science firms (10%), the highest number of software firms (34%) and so on so forth.

The following is one of the top conclusions of the report, "Indians have founded more engineering and technology companies in the US in the past decade than immigrants from UK, China, Taiwan and Japan combined. Of all immigrant-founded companies, 26% have Indian founders." And in this regard, India has even outpaced China! Read what the report has to say: "A comparison with Saxenian's 1999 finding shows that the percentage of firms with Indian or Chinese founders had increased from 24% to 28%. Indian immigrants outpaced their Chinese counterparts as founders of engineering and technology companies in Silicon Valley. Saxenian reported that 17% of Silicon Valley startups from 1980-1998 had a Chinese founder and 7% had an Indian founder. We found that from 1995 to 2005, Indians were key founders of 15.5% of all Silicon Valley startups, and immigrants from China and Taiwan were key founders in 12.8%." And America is the world's largest economy! Given our policy makers continuing paralysis, one can't blame Indians from choosing to add to the growth of America than of India.

Of course, there's huge optimism within India's entrepreneurship community (Grant Thornton's 'International Business Report' ranks our entrepreneurs' optimism second highest in the world). But all that would come to a cypher naught if the government and the majority of India Inc. doesn't wake up to the

thundering call of supporting entrepreneurship, a call the exemplary Ratan Tata has already taken too many times.

INDIA IS RANKED A SHAMEFUL 150 OUT OF 156 NATIONS ON THE 'SOCIAL GLOBALISATION' INDEX

There is another very large group within India Inc., for whom globalisation has meant nothing but just M&As – in fact, the 2006 Accenture 'India Goes Global' report shows how those are only M&As that drive the definition of 'globalisation' for India Inc. This is what the report said, "While in recent years, most media references to India's growth have focused on the sub-continent as a destination for outsourcing and investment, this year has seen the arrival of India as a shaping force on global markets. This is particularly evident in the powerful new trend towards overseas acquisitions by Indian companies." One prediction made by Accenture was this: "This M&A trend is a key factor helping Indian companies to emerge on the global stage. Six Indian companies feature in the Fortune Global 500 list of the biggest companies in the world. These are Indian Oil, Reliance Industries, Bharat Petroleum, Hindustan Petroleum, Oil & Natural Gas, and the State Bank of India. Based on current growth and M&A trends, we would expect this number to double by 2010." So how many were present on Fortune Global 2010 list? 12, as Accenture had forecasted? No. Just 8 – proving the fault line in optimism from global acquisitions by Indian companies being the route to attaining the salvation called globalisation!

Innumerable studies (refer Chapter 11 of this book)

IT'S SHAMEFUL THAT FOR INDIA INC., GLOBALISATION SIMPLY MEANS M&AS – A STRATEGY THAT ALMOST ALWAYS DESTROYS SHAREHOLDERS' VALUE

from KPMG, McKinsey, Booz Allen, A. T. Kearney, MIT, HBS etc have trashed the concept of M&A as a strategy for any firm, showing how in any M&A deal, shareholders' wealth 'WILL' get eroded from a negative 50% to a negative 80% and beyond! It is criminal that India Inc. – rather than following the true globalisation definition of setting up subsidiaries, JVs in foreign lands and offshore destinations, setting up marketing tie-ups etc – has almost always, in a pig-headed fashion (and we apologise in advance for the term), gone for the quick-fix ego satisfying strategy of M&A.

This brings up the third and last question – how many recognised, valued globalised product/service brands does India have? The answer is not ten or twenty, but one. As per MilwardBrown's '100 Most Valuable Global Brands 2011 rankings', there were 12 Chinese brands which fought their way into the top 100; and only one Indian. For India, ICICI was the only name, just like it was in 2010! Hopefully, this count of Indian brands will rise at a pace proportional to the cash we are doling out to buy foreign assets. In 2008, when Interbrand came out with its '100 Most Valuable Brands' list, 8 Asian brands made it to the list. Zero were of Indian origin! In 2010, the Interbrand ranking again saw 8 Asian brands making it to the top 100. Again, zero were from India.

What a shame! In straight terms, India stands

shamefully last on almost all parameters of globalisation. It's about time you as a CEO took it upon yourself to build a global brand – akin to what Sony's Akio Morita did. Yes, it involves not only an orientation towards risk, but more importantly a lot of patriotism. But as one of the coauthors of this book (Arindam Chaudhuri) wrote in one of their previous books, 'Discover The Diamond In You', patriotism (one of the 9Ps discussed in the book to bring out the diamond in any individual) is the critical essentiality that differentiates the most outstanding people from others. Go ahead, take the risk, jump aboard and abroad. Your company may well be the second Indian one to reach the world stage. And if you do that, write to us; we promise, we'll dedicate a chapter to you in our next book.

2
DIVERSIFICATION

IS CORE BETTER THAN DIVERSIFIED?

This disdainful familial statement and similar ones have been quite generously reserved through the 90s and beyond the turn of the century – by our esteemed 'core' strategic analysts and consulting firms, most of them belonging to the McKinsey Way of doing things – for those corporations that have not been able to conform to the much hyped strategy of sticking to 'core competencies' – a term fashionably coined by Gary Hamel and the late C. K. Prahalad almost 20 years ago, with a Brobdingnagian claim that the one and 'strictly only' way in which corporations could be dramatically successful for their stakeholders and shareholders was by sticking fanatically to core competencies, and by rejecting all other 'non-

"A MAJORITY OF DIVERSIFIED FIRMS BEAT STOCK MARKET AVERAGES SIGNIFICANTLY," BCG STUDY

core' business propositions, however profitable, or however value adding to shareholders! Strangely, this is a term that industry experts even now keep regurgitating and throwing up with incessant and deliberate ease.

Even with respect to Asia, Tobias C. Hoschka and John Livingston, two McKinsey consultants, in their white paper, 'Winning Asian Strategies', that compared the MSCI World Average Stock Index to the MSCI Asia-Pacific (ex-Japan) Stock Index from 1996 till 2001, provided what they claimed was 'hard analytical evidence', of why Asian companies (read 'prospective clients') had performed badly with respect to shareholder returns as compared to even average performing global companies (read 'current clients') just because they – the "Asian laggards" – didn't stick to the core "narrow slivers of business."

But in a smashing blow to this theory of core competence, in December 2006, Heuskel, Fechtel and Beckmann of the Boston Consulting Group, in a massive global study of hundreds of corporations ('Managing for Value: How The World's Top Diversified Companies Produce Superior Shareholder Returns'), covering the years 1996 till 2005, statistically and undeniably proved with brilliant impact that not only did the majority of diversified companies resoundingly beat the stock market average by hugely significant margins, but also that a majority of the core focused corporations (almost 60% of them) were not even able to beat the average

shareholder returns provided by diversified companies. The typical nail in the core coffin is the conclusive remark that, "'There is no statistical correlation between 'focus' and shareholder value. The more businesses a company has, the greater the flexibility it has to reinvent itself and sustain growth."

There is clearly no statistical correlation between 'focus' and shareholder value, an indubitable finding that has also been proven earlier by Thomson Financial Datastream, a leading analytics corporations. The power of diversification is so high that while the majority of the world's M&As always result in destruction of shareholder value (from 50% almost up to 80%; various reports from KPMG, McKinsey, Andersen etc), diversifying mergers have continued, on an average, to earn positive combined shareholder returns, and not just for one year, but throughout the last 55 years (as per the May 2005 benchmark paper by Professor Mehmet Engin Akbulut and John G. Matsusaka, of the Marshall School of Business, University of Southern California, which studied 3,667 mergers over the last 55 years).

And to put to demise the clearly, and may we say false and hollow support to the core theory, the Business & Economy magazine and IIPM Think Tank, in an analysis from 2002 till December 2006, revealed that in the last 4 years, Asian companies have beaten non-Asian corporations, by giving a whopping 67% more in shareholder returns than that provided by global firms (MSCI World Average Stock Index versus the MSCI Asia-Pacific ex-Japan Stock Index), despite a focus on diversification. And there, dear CEOs, lies the crux of all

such spin on "following the core" that has been forced down the throats of CEOs by innumerable consulting firms globally. Of course, diversifying without research and necessary skills is clearly illogical; but that in no way takes away the killing need for each and every business to venture into realms that, though not relating to the traditional model, or core, provide significant shareholder value increase...

Let us take you through some other academic studies that make a point in this regard, answering whether focusing on core businesses is more profitable for companies or is having diversified streams of operations the better bet. Prof. Gert Bruche of the Berlin School of Economics proved in his working paper titled, 'Corporate Strategy, Relatedness and Diversification', that diversified companies "display a better performance" than single business companies. Another sparkling report by an erstwhile core proponent, McKinsey & Co, titled, 'Beyond focus: Diversifying for growth', proves how over a period of a decade, the market value CAGR of diversified companies stood 126% higher than of focused companies. There's more. The report further clarifies how on one hand, while "the focused group tallied an average annual excess Total Returns to Shareholders of 8%," the "moderately diversified group notched up 13% annual excess TRS and higher median EPS growth…" In an exclusive column of Prof. Kurt April of University of Cape Town in Strategic Innovators (a Planman Media publication), he wrote: "I conducted research to understand the extent of the realisation of core competencies in the South African personal finances (assurance) industry, by focusing on

"MARKET VALUE CAGR OF DIVERSIFIED COMPANIES STOOD 126% HIGHER THAN OF FOCUSED COMPANIES," MCKINSEY STUDY

IT assets and enablements and looking at pools of assets (IT infrastructure) and firm internal processes (enabled or combined with other assets) to create sustainable advantage. Within the firm itself, I discovered that IT could not be explored without bringing in a discussion of other resources, due to the significant cross-dependent characteristics of a firm's complementary resource combinations. Therefore I found no proof of existence of such a thing as a pure core-focused business unit – all successful companies, which in the eyes of the world focus on core businesses are in fact, diversified businesses!"

Then follows the pumped-up and charged to the core, 'anti-core' study by Profs. A. M. Pandya & N. V. Rao of Northeastern Illinois University titled, 'Diversification and Firm Performance: An empirical evaluation', which proves how, "Diversified firms show better performance compared to undiversified firms on both risk and return dimensions. Diversification can improve debt capacity, reduce the chances of bankruptcy by going into new product/ markets, and improve asset deployment and profitability. Diversified firms pool unsystematic risk and reduce the variability of operating cash flow…"

Even the iconic Professor Michael E. Porter of Harvard Business School argues in his almost revolutionary book, 'Competitive Advantage: Creating and Sustaining Superior Performance', "Resource sharing and

"DIVERSIFIED FIRMS TRADE AT A SIGNIFICANT AVERAGE PREMIUM RELATIVE SINGLE BUSINESS FIRMS." VILLALONGA, HARVARD BUSINESS SCHOOL

competence transfers enable the 'diversified firm' either to reduce overall operating costs in one or more of its divisions, and/or to better differentiate the products of one or more divisions resulting in a price premium."

Another sparkling paper titled, 'Can Diversification Create Value?', by Prof. Tomas Jandik of Sam Walton College of Business, University of Arkansas and A. K. Makhija, Fisher College of Business, Ohio University, proves how, for diversified firms, "this 'failure' to focus has been rewarded with higher firm values. Diversification can create value by opening up new investment opportunities..." Professor Belen Villalonga of Harvard Business School proves in his paper titled, 'Diversification: Discount or Premium?' that diversified firms "trade at a significant average premium relative to comparable portfolios of single business firms." Slapping worshippers of single business philosophy harder, he finally sums it all in one short line, "I find diversification as a premium!"

Even demergers ostensibly attempted by companies to focus on core businesses have ended up destroying shareholder value. BCG, in its report titled 'Conglomerates Report 2002: Breakups Are Not The Only Solution', proves statistically how 70% of such break-ups in the ten years preceding the study, either "destroyed" or "did not create value"! Contrary to narrowing down multibusiness

focus, diversifying mergers in the past 55 years have continued to deliver superior returns as compared to single-business deals, as proven in the landmark paper by Professor Mehmet Engin Akbulut and John G. Matsusaka, Marshall School of Business, University of Southern California, a report that analysed 3,667 mergers in the past 55 years.

So clearly, if globalisation was the lesson in the first chapter, then diversification and moving away from 'core' businesses is the argument that we're forwarding in this chapter. Empirical and historical analysis does support this strong proposition by us.

3
IMPORTANCE OF ADVERTISING

ALL CONSUMERS ARE FOOLS!

The context clearly is – is advertising really a more crucial tool than product quality? Are all consumers – or at least a majority of them – fools to not be convinced on quality yet purchase a product purely on advertising? On the heels of the renowned Naomi Klein (author of the 2000 best seller 'No Logo', which blew the 'brand' myth) and Eric Schlosser ('Fast Food Nation'), won't the world be a better place for top guns in terms of sales, profits & stock value if companies, instead of investing even a penny in advertising, invested totally in giving 'the best' product quality? Thankfully, no!

From the 2002 Nobel Prize winner Dr. Daniel Kahneman (of Princeton University, who proved that

CONSUMERS OFTEN ILLOGICALLY CHOOSE 'INFERIOR' PRODUCTS OVER BETTER ONES BECAUSE OF THEIR PERSONAL INTUITIONS

consumers often foolishly choose the 'worse' product over the 'better' one due to 'intuition'), to even the most prospective future Nobel Prize winner Dr. Michael Porter (of 'competitive strategy' fame), advertising's power to influence the irrational consumer is unquestionable, even when the compromise results in providing inferior products.

Dr. Daniel Kahneman of Princeton University, who received the Nobel Prize in Economics in 2002-03, in his 'Prospect Theory' suggests that rather than undertaking decisions just based on 'logical reasoning' (namely, choosing the better product over the worse), humans also include a critical factor known as 'intuition', which is the main reason for consumers behaving irrationally and many a time even foolishly while purchasing products and services. Some years ago, even Dr. John Nash (of Nash Equilibrium fame) won the Nobel for theorising a concept of a less than optimal equilibrium.

Most interestingly, the 'Prospect Theory' has its mirror image in the competitive strategy theory propounded by Dr. Michael Porter, where he postulates that all the global theories of competitive strategies and tactical warfare can be summarised into one electrifying word, 'positioning'. This consecutively gets transformed into another word that is mind-bogglingly changing paradigms of marketing battles in global industries and consumer spaces. And that word is 'perception'. It's now a well researched

conclusion that consumers do not make decisions based on which product is better, but based on which product is "perceived" as better. Amusingly, across industries, more often than not, the product which is actually worse off in quality is the one which sells more, and many times, despite being priced higher.

A column on branding (titled, 'Profits are apparent. Brand health is not!') that Prof. Tim Calkins of Kellogg School of Management, wrote in the July 2010 issue of 4Ps Business & Marketing, too emphasises the same. Prof Calkins elucidates, "In theory, investors should focus intently on branding and advertising. One of the things we know from research is that a strong brand can turn a commoditised, undifferentiated product into something unique and special. For instance, as soon as you put the Tiffany logo on a diamond, the value of the diamond shoots up. It is no longer just a diamond, it is a Tiffany diamond."

After an exhaustive eight years of analysis (Brands Matter, 2002), Madden, Fehle & Fournier of HBS statistically proved that firms investing in advertising to build their brands ensured most significant stock returns (from 7% to almost 30%; Interbrand and E&Y quoted reports). In the mercurial thesis, 'Internationalisation Vs. Agency Behaviour', researchers Morck and Yeung (of Michigan University and Stern School at NYU respectively), showed more comprehensively that even those organisations undertaking diversification (a strategy conclusively proven to add to shareholders' wealth) will fail to succeed if they do not advertise!

The July 2006 study from Drs. Srinivasan (Texas

University) and Srivastava (Emory University), documents research that shows that "advertising 'positively' affects... return on assets, intangible firm value, market capitalization and weighted average cost of capital." And even with respect to industry specific research, in November 2006, Fosfuri and Marco of Madrid University amusingly presented – after investigating the carbonated soft drinks industry (with a colossal advertising budget of $60 billion) – that forget your own advertising (which will surely increase your firm's value), even a rival firm's advertising results in your company's value increasing.

In November 2006, Professors Joshi (Florida University) and Hansens (UCLA) proved through a compelling 15 year study that in the most new-age IT industry, advertising "will" have a substantial positive impact on market capitalisation over the long run. "It is therefore obvious that shareholders should care about the brands they have invested in. Brand names are strong identifiers for the consumers who have developed expectations about the performance of the products or services," stresses Prof. Hubert Gatignon of INSEAD in a piece on branding (titled, 'Why Should investors care about brands?') he contributed to the July 2010 Issue of 4Ps Business & Marketing.

And it's been the same for quite a few years. For example, in 2011, CMR published its annual 'Mobile Handsets Usage and Satisfaction Study'. The company that scored the highest on the value for money parameter was BlackBerry with 66% rating it as excellent or very good value for money; followed by Nokia at 58% and Samsung at 57%. The company which sold the most cell

phones for the quarter ending June 2011 remains Nokia with a share of 25% and 45.8% in the cell phone and smart phone segments respectively. Samsung takes second place with 15% and 21% share in the two segments and BlackBerry maker RIM has to contend with a humbling 3rd place with a share of just 15% in the smartphone segment.

Similarly in automobiles, Toyota in 2010 was ranked the third Most Admired Corporation globally by Fortune in the automotive segment. Yet, in J D Power & Associates 2011 Initial Quality Study, Toyota was ranked a much lower '7' with reported 101 problems per 100 vehicles. To be the third most admired company despite having close to one problem per car, is purely due to advertising.

Look at GM and the inference becomes clearer. GM's brand Chevrolet ranks 13th on the J D Power & Associates 2011 Initial Quality Study list with 109 problems per 100 vehicles and Ford ranks 23rd with 116 problems per 100 vehicles. When you look at market share figures in the US, GM led by the end of 2010 with a market share of 19.6% with Ford at 16.6% and Toyota at 3 with 15.2% market share. Are consumers fools to buy GM or Ford or Toyota cars despite them not being ranked at the top in quality? In fact, despite all the above car makers pricing their products more or less similarly, consumers are buying more of the worst product and less of the better product if we were to simply go by the data above.

In another perspective, if speed & technological excellence were the factors of quality, then while Ferrari has won six of the past ten years' F-1 Grand Prix Championship, its parent Fiat's market share globally

is less than 5%. The 'Judgement of Paris' wine tasting competition in 1976, covered by TIME magazine's George Taber, which was held again in May 2006 in London, proved that California wines tasted better than French, and by miles. Guess which sells more? But obviously, the French.

During the VCR era, Japanese brands were global leaders. If we were to ask you; which one of the following brands of VCRs would you have chosen if you had had to purchase a VCR: Panasonic, Matsushita, JVC? In our CEO workshops, we've noticed that a majority choose Panasonic, then a few choose JVC, and the least choose Matsushita. Amusingly, none realise that all three brands have been owned by Matsushita; and almost all the products being branded differently had more or less the same technical specifications. JVC, in fact, was a Matsushita subsidiary since 1953 (till 2008). Yet, CEOs chose Panasonic. Why?

The reason is 'perception'! Play on consumers' irrationality, and one can easily change their perception about eating cancer causing burgers, drinking liver destroying alcohol, consuming pesticide infested cold drinks, munching on fungal infected and worm strewn chocolates, smoking life destroying cigarettes, doing dope etc. etc. etc.; the list is never ending and extends even to football. In the history of FIFA World Cup Finals since 1930, only three times has a team that had the best quality player (that is, the player who won the Golden Boot award for scoring the most goals) gone ahead to win the tournament!

For the sake of it, guess who is the most successful

footballer of all times scoring the most goals in the history of international football? Obviously, the "perceived" answer is Pele, or even Christiano Ronaldo or Lionel Messi right? Wrong! The man is Daei Ali of Iran (109 goals). With 77 goals, Pele is not even second in the list (Ferenc Puskas from Hungary is, with 84 goals)! Christiano is below 70 goals. Messi is below 25 goals.

So are all consumers fools? Like we mentioned, we know of at least two people who've got Nobel Prizes proving just that! This brings us to an extremely interesting paradigm in advertising.

CELEB ENDORSEMENTS – DO THEY HELP?

A key question we have often faced during our discussions on advertising with CEOs and owners is the question regarding the use of celebrities. Should we should we not? Well...

Post his embarrassing expose in 2009, Tiger Woods wasn't able to come out of his house for many days. Be that as it may, the question is, in such a situation, would brands that were endorsed by a tainted celebrity benefit from continuing with him? But even before that, do celebrity endorsements really help companies perform better?

While the latest Interbrand-BusinessWeek 'Most Valuable Global Brands 2010' list has Coca Cola (a company renowned for choosing regional celebrity ambassadors) as the most valuable brand in the world (valued at $70.45 billion), the fact is that seven of the top ten 'most valuable brands' on the list do not have even a single celebrity brand ambassador as of date. These include

IF YOU HAD TO PURCHASE AN ELECTRONICS PRODUCT, WOULD YOU HAVE CHOSEN JVC OR PANASONIC OR MATSUSHITA?

names like IBM (worth $64.73 billion), Microsoft ($60.89 billion), Google ($43.56 billion) and Intel ($32.01 billion). Are the times of celebrity branding getting over?

Not quite. In fact, not at all!

In their December 2008 paper titled 'The Economic Value of Athlete Endorsers', Anita Elbersei (Professor at Harvard Business School) and Jeroen Verleunii (VU University Amsterdam) prove how sports athletes have a definite positive influence on their clients' stock performance. They write, "We find that a firm's stock market valuation increases when it recruits an athlete endorser, and (also) each time one of its athlete endorsers achieves a major career milestone." In a hallmark 2009 Wharton marketing paper titled 'Advertising yourself', Prof. Eric Bradlow of Wharton states that it is important "to reach out to people who are 'influencers'. Everyone should have a list of 20 or 30 people who will act as their ambassadors…"

Professors Robert Clark (HEC Montreal) and Ignatius Hortsmann (University of Toronto) give empirical evidence in their classic research 'Celebrity Endorsements' that proves that not only do "celebrities enhance product recall... They also enhance consumer perception of product value... Consumers value more highly a product endorsed by a celebrity than one without a celebrity endorsement."

Amit Joshi and Dominique Hanssens, after a decade-long analysis of Apple, Compaq, Dell, HP and IBM,

prove in their thesis 'Advertising Spending and Marketing Capitalization' that when celebrities endorsed these 'tech' brands, shareholders and investors ensured the firm's future earnings potential rose. In 'The Economic Worth of Celebrity Endorsers', Professor Kamakura (University of Pittsburg) and Professor Agrawal (California State University) put forward the concept that the average impact of celebrity endorsement announcements is definitively positive on stock returns. Researchers Miciak & Stanlin give a global synopsis, "Celebrity endorsements work so well that (now, globally) about 20% of all TV commercials feature a celebrity."

It is time that those companies which do not use brand ambassadors wake up to see the true benefit. Tiger or no Tiger, celebrity endorsements work fantastically, and avoiding the same can only lead to opportunities lost.

4
R&D AND TECHNOLOGY – DO THEY PAY OFF?

THE R&D AND TECHNOLOGY CONUNDRUM!

Critically, how valuable do the world's greatest organisations consider investments in R&D and technology? How well do these investments improve profits, sales etc...?

Let's first take the 'technology' question.

When the famed Jim Collins wrote a few years back in his best seller, Good To Great, that "none of the Good-To-Great [world class] executives put technology as one of their top 5 drivers," not many believed that that would be the way it would be in the future. Three years back, when we researched the outstanding NYSE CEO Report 2008, it stunningly corroborated Jim's findings by showing

"ONLY 5% OF CEOS THINK THAT NEW TECHNOLOGY IS AN IMPORTANT INTERNAL FACTOR AFFECTING PROFITABILITY..." NYSE CEO REPORT

that only 5% of CEOs now thought that new technology would be "the most important internal factor affecting profitability..." 67% of CEOs believed that "the ROIs from technology investments have failed to meet expectations till date!"

The factor considered most important by CEOs for revenue growth was a 'management team', not technology. Though there are many believers in R&D, the NYSE CEO Report 2010 convinces us not to befooled with the promises of the dollars wasted in R&D. It states, "As was the case [previously], operational efficiency and management stand out as the internal factors expected to have more impact on profitability. CEOs have downgraded the importance of new technology and products..." 70% of CEOs now say they would not increase their investments in technology.

Is technology adoption important for a company to perform excellently? Let's start with PwC's Annual Global CEO Survey 2007, which stated that global CEOs place "technological disruptions" at a lowly rank of seven in the list of most important concerns. The report further stated that only 20% of CEOs are 'extremely concerned' about "technological disruptions." Even in PwC's 2004 Global CEO Survey, top honchos had firmly believed that "Technology" was only a lowly 7th in their priority of biggest challenges. *The number one of course being – People!*

Yang Yuanqing, Chairman and CEO, Lenovo, quotes in

the 2007 report, "The most critical factors that determine whether you win or lose are the way you do business, the deployment of your resources, the allocation of functions and your operational workflow...."

Dr. Peter M. DeMarzo, Dr. Ron Kaniel and Dr. Ilan Kremer (Stanford Graduate School of Business; and the Fuqua School of Business, Duke University) in their formidable report (...Technology Bubbles) doubly vindicate that finding with conviction that "the introduction of a new risky technology results in over investment, and in risk-taking behaviour which seems to deviate from a rational outcome."

A lucid and provocative speaker on business and technology, Nicholas G. Carr, in an extremely insightful HBR article titled, 'IT Doesn't Matter', proves through extensive research that "as Information Technology's power and ubiquity have grown, its strategic importance has diminished. Technology's potential for differentiating one company from the pack – its strategic potential – inexorably diminishes." While experts and media houses from around the world called the work "A bombshell" (Forbes), "Provocative" (NYT), "Firestorm!" (BusinessWeek), "Accurate description of the technological world..." (CNN Money), "...and "of today's tech landscape" (WSJ), Steve Ballmer, CEO of tech-giant Microsoft, predictably called the article a "hogwash!"

A letter from John Brown (former Chief Scientist, Xerox) and John Hagel III to HBR had this warning, "Businesses have overestimated the strategic value of IT. They have significantly overspent on technology in the quest for business value. IT-driven initiatives rarely

produce expected returns..."

We found almost all global research pointing towards the same direction. The IBM Global CEO Study shows how in the electronics industry, the "technology factor" is not the most important external force shaping innovation ('Market Factors' is, as per 56% of respondents). In their report titled Economic and Technical Drivers of Technology (March 2006), Dr. P. Yin (HBS) & Dr. Timothy F. Bresnahan (Stanford) dramatically prove that even in technology industries, "distribution played a larger role than did technical progress in determining the market outcomes."

The inimitable Economist Intelligence Unit 2007 report states, "As amazing as engagement technology can be, experts agree that it is generally better to focus on business goals rather than the technology." Charles Jennings of Reuters says in the report, "I think there have been lots of mistakes over the last ten years, expensive mistakes, because they've been technology-led."

Thus, it's quite clear that the world's greatest CEOs and companies do not over-emphasise on or overinvest in technology, which in any way can only be an enable, never a differentiator.

This brings us to our second issue: Research & Development. How much should a CEO focus on R&D? Should R&D be the most critical driver of business growth?

Think of the names of the top ten R&D spenders in the world – Toyota, Pfizer, Ford, Johnson & Johnson, Daimler Chrysler, GM, Microsoft, GlaxoSmithkline, Siemens and IBM, all excellently performing companies, constituting a mind numbing 15% plus of global R&D

spend – this seems to be the final proof that it's R&D and not any anything else that is most important for companies. Well, not so fast, we say.

"EVEN IN TECHNOLOGY INDUSTRIES, DISTRIBUTION PLAYED A LARGER ROLE THAN DID TECHNICAL PROGRESS," STANFORD, HBS STUDY

The joint HBS and Southwestern University 2006 'Industry R&D Survey' shows how the total number of R&D spenders in the US, while rising since 1974 and peaking in 1993, have almost regularly gone down year after year since then till the turn of the century. Prof. Arthur A. Daemmrich of Harvard Business School in a column which he contributed to the February 2011 issue of Business & Economy magazine, on R&D investments (titled, 'Vicious and Virtuous Cycles in Research & Development!') wrote about the declining investments in R&D in the chemical industry and the after-effects of such strategies. He stated, "To bring a technology from invention to market requires time, effort and increasing R&D investment. Yet in recent years, funding for R&D in the chemical industry has entered a precarious position, as companies underwent significant internal changes or merged with former competitors. Reports on industrial R&D from the past three decades track a decline in expenditures: in 1980, the top fifteen chemical firms expanded their R&D spending by 13%; in 1990, R&D spending grew by 6%; in 2003, forecasters predicted a 1% decline!"

Dr. Scott J. Wallsten of Stanford, in 'The R&D

Boondoggle', assertively confirmed the same fact that globally, firms have started investing lesser in R&D. And the reason, Wallsten confirmed, was that R&D spenders generally had received considerably lesser benefits than all other firms. BusinessWeek in November 2006 researched the top five R&D spenders in the world and asked the question, "Are there parallels between lavish R&D spending and stock-price gains?" The answer they found was, "Not really!"

But what shocked us right through was another hallmark 2006 report titled, 'The Stock Market Valuation of R&D Expenditures' by Chan, Lakonishok & Sougiannis of The University of Illinois, who proved definitively that "the average historical stock returns of firms doing R&D matches the returns of firms without R&D... The market is too pessimistic about beaten-down R&D and companies with high R&D to equity market value tend to have poor returns!"

Then how does one innovate? How does one create new products and services for the customers? There are two perspectives in this. One is that to succeed, one really doesn't need to innovate completely new products or services; as long as consumers believe that the product is fantastically new and your company is a great innovator, you've done your job. This also requires a close scrutiny of what competition is doing, and ensuring that rather than have the first movers' advantage, you learn from the mistakes of the real innovator and gain the second movers' advantage by ensuring focused and better branding of your me-too products.

The second perspective is that innovation is not at

all about the money, as late Steve Jobs justified, "...Or about how many R&D dollars you have. It's about the people you have, how you're led..." A great idea from an individual is more than enough meat. In May 1981, when Rolfe Shellenberger, Marketing Manager of the $184 million revenue grossing American Airlines, proposed a strange new discount scheme to entice current air travellers to take future tickets too, CEO Bob Crandall didn't take much convincing, once Rolfe had proved the innovative idea was profitable! 'AAdvantage' became the world's first frequent-flyer scheme, resulting in a 13,000% revenue increase.

Booz Allen Hamilton regularly analyse the top 1,000 R&D spenders globally (who constitute around 84% of the global corporate R&D spending) globally in their report, 'Global Innovation 1000!' The findings are shockingly eye opening. The report quotes, "There is no statistically significant relationship between financial performance and innovation spending, in terms of either total R&D dollars or R&D as a percentage of revenues. Many companies – notably, Apple – consistently underspend their peers on R&D investments while outperforming them on a broad range of measures of corporate success, such as revenue growth, profit growth, margins, and total shareholder return. Meanwhile, entire industries, such as pharmaceuticals, continue to devote relatively large shares of their resources to innovation, yet end up with much less to show for it than they – and their shareholders – might hope for."

Neither did Apple invent the table computer, nor did it invent the digital portable audio player.

"THE STOCK RETURNS OF FIRMS DOING R&D IS NO DIFFERENT FROM THOSE WITHOUT R&D," UNIVERSITY OF ILLINOIS STUDY

Taking the Apple example in particular.. While the general perception is that Apple is the most innovative corporation in the world, it actually is more importantly a great marketer. The iPad was never conceptually invented by Apple. The Pencept corporation was the first to introduce tablet computers in 1981-82. Unfortunately, not knowing the concepts of branding, the product never took off. Not many know that Apple actually introduced their version of the tablet computer in 1987 (they called it the 'Knowledge Navigator'). Expectably, without marketing, this concept product also never took off. Other competitors followed. Yet, it was Jobs who understood that the key differentiator could not be either technology or the money spent on R&D, but the money spent on marketing (especially the 4Ps; product, price, place, promotion) and branding. That's what clicked for iPad.

And if you talk about a portable music player like iPod, Steve Jobs never invented the concept behind iPod. Apparently, an individual called Kane Kramer invented the portable digital audio player in 1979; it was called the IXI. In fact, the modern day iPod looks stunningly similar to the IXI. In 2008, in a court case, Apple even used Kramer as a consultant while fighting a court case involving the iPod. That's what marketing can do to a concept – it can make consumers believe what isn't true; and make the corporation profitable without the firm

having to invest huge amounts of dollars into R&D.

B&E and the IIPM Think Tank carried out a correlation test on the top 20 R&D spenders in 2010 among the Fortune 500 companies (US) including the likes of Microsoft, Intel, Apple and IBM. The results indicate that over the past 5 years, CAGR in R&D expenditure as a percentage of revenue has resulted in a decrease in revenue as well as profit and market capitalisation of these companies as they bear a negative correlation of 0.50, 0.64 and 0.36 respectively. You could argue for days on the topic, but the fact is that not only does WalMart (the world's largest corporation) not even feature in the top 1,000 R&D spenders' list, but also that as per York University's January 2008 report, even Big Pharma spends "almost twice as much on promotion as it does on R&D, contrary to the industry's claim!" Obsessive compulsive spenders in R&D end up devastating shareholder value, sales, profits and other performance factors beyond repair. Sadly, there are still a plethora of CEOs who believe R&D and not a focus on the Ps of marketing can lead them to success.

When Rudolph Pariser, Former Polymer Chemist at DuPont, spoke to Strategic Innovators in April 2010, he was of the view that "Innovation that results from R&D is like a circle or loop – it's endless; you begin with an idea or opportunity supported by a customer, develop an innovation based on the customer's needs, and satisfy the customer with the innovation. If you are successful, the client will present further opportunities for innovation!" Our take is – allow your competitors to take charge of this endless loop. Allow them to spend millions and billions

"THERE IS NO RELATIONSHIP BETWEEN FINANCIAL PERFORMANCE AND INNOVATION/R&D SPENDING," BOOZ ALLEN REPORT 2011

of precious dollars, while you focus on the Ps of marketing to make your business rock solid. The world's excellently performing corporations have got this equation bang on!

The fact is that Apple was not and will never be the greatest innovator in the world, despite being 'perceived' so. The fact is that if you believe that spending on R&D and technology will increase future profits, you'll ensure your company is more or less doomed to be an average performer or loss maker.

Clearly, 'marketing' will always work thunderously better than wasting money on ridiculously innovating and implementing new technology that consumers never wanted!

Be the CEO that Steve Jobs would have wanted you to be. Stop R&D, start marketing, start working!

5
QUALITY & SIX S'T'IGMA

SIX SIGMA: A SOLUTION WAITING TO CREATE A PROBLEM

Just a minute! What was that? Did we misspell (and reduce in quality) the very term that defines the international extremist obsession with quality globally? Well, obviously not, and deliberately so! But first, for the newly inducted: The statistical term, Six Sigma, was invented as a quality control measure in 1986 (by Bill Smith, an engineer at Motorola) and trademarked as proprietary by Motorola later on. As Peter Pande defines in his world famous book The Six Sigma Way, "Statistically, Six Sigma processes, products, and services meet defined customer requirements 99.9997% of all times!" Or just 3.4 defects per million processes, and not one defect more! And

SIX SIGMA IS ABOUT ENSURING THAT THERE ARE ONLY 3.4 DEFECTS PER MILLION PRODUCTS/ PROCESSES IN YOUR ORGANISATION

that only such a goal of near-perfection can ensure billions of dollars being saved! The philosophy is militantly clear. It's do or die! Kill or be killed!! Whoa! And a big sigh too...

For all this can be summarised in two words, which many CEOs would not be unfamiliar with, "Pure rubbish." But then, aren't world class companies like GE, JP Morgan Chase, Kodak Honeywell, HP, Allianz et al the reasons that Six Sigma has become a global craze? Well, comprehensively documented researches have shown findings to the contrary. As detailed in the NYSE Magazine (2010), CEOs of top listed US corporations did 'claim' vociferously that operational efficiency was the most important factor that would affect profitability of their companies. But the IPSOS-MORI-Booz Allen Hamilton spring 2006 survey of manufacturing leaders clearly proved how Six Sigma, in reality, featured third from bottom as a factor to capitalise on lost cost opportunities. In fact, the NYSE CEO report 2010 itself, contradicting the claims of the CEOs, showed how Six Sigma did not even feature in the top ten internal factors affecting revenue growth. The RBSC Research Group showed how Six Sigma cannot even be applied to software as all it can do is "mislead" & "confuse."

This is true of other industries too. As critics question, does a bank following Six Sigma then allow its cash counting machine (or man) to pocket $3.4 every million

dollars processed? Do aviation authorities, for every million hours of accident free flying, gregariously allow 3.4 hours of crashes? What about the pizza company that found that sticking to their 15 minute delivery guarantee a million times was very tough (so they simply changed the same to 30 minutes)? And what about the famed 4,000 odd Dabbawalas of Mumbai who are purported to have reached Six Sigma quality in deliveries? Did somebody go with them to a million deliveries just to check whether they made less than 3.4 defective ones (because to catch 3.4 defects, one will have to check each and every process)?

Worse, 3.4 defects per million, statistically, is not even 6 Sigma (that is, six deviations from mean), but 4.5 Sigma! Clearly, the concept is flawed from its very definition! Eugene C. Reyes, VP-Business Development North America, BPO International, Inc., gives a scathing critique of the concept in the August 2010 Issue of Business & Economy (a Planman Media Publication) where he says, "Six Sigma, TQM and even ISOs can stifle areas of business where innovation is key. Quality has merit, but can have a self-limiting effect when it comes to innovation."

Robert S. Kaplan is a Baker Foundation Professor at Harvard Business School, commented in a 2008 HBS Working Knowledge article (Strategy Execution and the Balanced Scorecard), "One challenge or pitfall is that few companies align their operational improvement activities to strategic priorities. Many companies today are practicing Total Quality Management, Six Sigma, or other continuous improvement activities. But these are done across the organization with no sense of priorities

or impact from process improvements. Consequently, much effort does not show up in tangible results."

Tom Davenport, the President's Chair in Information Technology and Management at Babson College, gave a few reasons for Six Sigma's demise in a 2008 article titled 'Why Six Sigma Is on the Downslope'. The first one was, "There was all the statistical mumbo-jumbo Six Sigma implied – but seldom delivered on in most companies' implementations."

Dr. Satya Chakravorty, professor of operations management at Kennesaw State University, wrote in Wall Street Journal in January 2010, "What do weight-loss plans and process-improvement programs such as Six Sigma and "lean manufacturing" have in common? They typically start off well, generating excitement and great progress, but all too often fail to have a lasting impact as participants gradually lose motivation and fall back into old habits... Nearly 60% of all corporate Six Sigma initiatives fail to yield the desire results."

Fortune magazine's senior writer, Betsy Morris wrote a classy July 2006 article titled 'New rule: Look out, not in'. In it, she mentioned, "No wonder that after Welch adopted Six Sigma (to which he devotes a chapter of his book "Winning"), more than a quarter of the Fortune 200 firms followed suit. Yet, not all firms were able to find the same magic. In fact, of 58 large companies that have announced Six Sigma programs, 91 percent have trailed the S&P 500 since, according to an analysis by Charles Holland of consulting firm Qualpro (which espouses a competing quality-improvement process)." Then why do CEOs follow Six Sigma?! Are CEOs like Jack Welch so

naive? Not at all.

Rather than being a quality control mechanism, or a growth strategy which would result in more employment, one suspects Six Sigma is perhaps the cleverest tool to retrench employees, and by the thousands.

"NEARLY 60% OF ALL CORPORATE SIX SIGMA INITIATIVES FAIL TO YIELD THE DESIRE RESULTS," KENNESAW STATE UNIVERSITY

Let's look at a few benchmark Six Sigma corporations and what have they achieved under its aegis: HP has continuously retrenched employees over the past decade; for example, by the end of 2006, it had kicked out 14,500 employees. In 2009, it retrenched a massive 9000 (more to come with the proposed divestment of the PC business announced by ex-CEO Leo Apothekar); Allianz cut 7,500 jobs by 2008; Honeywell, which follows Six Sigma "Plus," threw out 6,500 (5% of their workforce) in 2001; Kodak kicked off 15,000 by 2007 (after having shed 22,000 since 2000, another 3500-4000 in 2009); AT&T has shown the door to thousands (5900 in the first quarter of 2011); and for records, Jack Welch threw out a soul stopping 500,000 from GE & subsidiary companies during his reign (Monitor Multinational data)... Intel, Ford, Airbus, tell us a name following Six Sigma, and we'll show you the numbers they've retrenched!

James McNerney, who left GE soon after he realised he wouldn't be selected as Welch's successor, joined 3M and implemented the Six Sigma strategy throughout 3M. In other words, he kicked out 8,000 employees (11% of the staff) post the Six Sigma implementation. A BusinessWeek 2007 article, which covers the problems

that Six Sigma implementation has created throughout 3M, documents, "Indeed, the very factors that make Six Sigma effective in one context can make it ineffective in another. Traditionally, it uses rigorous statistical analysis to produce unambiguous data that help produce better quality, lower costs, and more efficiency. That all sounds great when you know what outcomes you'd like to control. But what about when there are few facts to go on—or you don't even know the nature of the problem you're trying to define?" Like we mentioned, Six Sigma is simply a glorified solution trying to find a problem. If a company really were worried about quality, it doesn't need to employ fancy terms or even fanatical quality targets which can never be met. And as the 3M example shows, implementation of Six Sigma can stifle creativity and innovation completely, as Six Sigma demands a religious adherence to processes and structures.

The best you can and should do as a CEO is spout the term Six Sigma in many of your press meets. That'll lull the audience into perceiving that your corporation is one dedicated to extreme quality controls. It's a good perception to propagate surely. But don't get seriously into the act of attempting to limit your defects to 3.4 per million products/processes. You'll kill yourself and the company attempting to achieve the same, and in attempting to find out whether you've achieved the same.

Allow us to give the example of an extremely intelligent corporation like General Motors. We quote Diana Tremblay, Vice President, Manufacturing & Labor, from one of her 'Management Briefing Seminars' that she

took in Michigan on Aug 2, 2010. She mentioned then, “Whether it has been a focus on continuous improvement or Six Sigma, manufacturing’s quest for quality has taken many forms over the years.” Now, if GM were to be following Six Sigma religiously, shouldn’t we expect the defects in their cars to be somewhere around the 3.4 mark per million cars? We repeat one statistic we’ve used in one of the previous chapters. In the J D Power & Associates 2011 Initial Quality Study, GM’s brand Chevrolet, for example, ranks 13th; the report found on an average 109 problems per 100 vehicles – mind our words, not 109 per million vehicles, but per 100 vehicles.

Such a figure is as horrendously far from any Six Sigma focus than one could have imagined. Yet, when you look at market share figures in the US, GM led by the end of 2010 with a market share of 19.6%. That’s Six Sigma marketing for you.

Poor old Motorola, the true followers of Six Sigma. After suffering gut wrenching accumulated losses of more than $5 billion (1998-2002), they finally saw sense... and kicked out 20,000 ‘quality’ employees (2003-2005). Guess their accumulated profits during this period – a smashing $7 billion! Finally, their biggest connect with the retail audience, Motorola Mobility, was sold off to Google for $12.5 billion in August 2011.

Naresh Goyal of Jet Airways sometime back had announced that he wished to retrench a few hundreds of his flight staff; and he immediately had to face recidivist opposition from political power centers who threatened open opposition if Goyal were to go ahead with his retrenchment drive. How wonderful it would have been if

GM CLAIMED TO FOLLOW SIX SIGMA; THE 2011 JD POWER QUALITY STUDY SHOWED GM'S CHEVROLET HAD 109 PROBLEMS PER 100 CARS

he had simply said that he was going to implement Six Sigma throughout his organisation; and then had proceeded to kick out the non-Six Sigma staff.

Six Sigma has nothing to do with quality, but just with the 'stigma' of being overstaffed. So what do we do about this monster of a business idea called Six Sigma. Dr. Chris Trimble of Tuck School of Business attempts an answer, which he told Business & Economy magazine (a Planman Media publication) in August 2010. He suggests that, "The solution is not to kill Six Sigma, but to create 'safe havens' where a company can pursue disciplined experiments – while simultaneously striving for excellence in day-to-day business."

We'll suggest using the term Six Sigma to blatantly position your company in the minds of the consumers as a quality conscious corporation; and that's about it. But then, there's something closely related to Six Sigma that you can actually practise in your organisation as an alternative. It could well be the solution when the need of the hour is to ensure that processes get implemented appropriately and do not get tampered with. Of course, the focus is on process replication rather than quality control. And the concept that we're talking about is...

EXNOVATION© – THE MOTHER OF ALL INNOVATIONS

Why companies need to master the art of not innovating; in

other words, the art of Exnovation – the opposite of innovation.

It was in 1996 when we conjured up this term called exnovation – which we defined as the opposite of innovation – and presumed that we had arrived on the global management scene; well, had not we finally created a better mousetrap? 15 years later, we see that the term exnovation is still known to almost zero individuals on this planet ('cept us of course), and where known, has taken up definitions that we never intended.

We accept, in the present times, nothing excites corporate junkies more than the concept of innovation. Who in heavens would care about exnovation for god's sake?! Would you wish your company to come out tops on the World's Most Innovative Companies' lists or would you wish to be the numero uno on the exnovation charter – in other words, the world's topmost 'non-innovating' company? One doesn't need to think too deeply to get the answer to that. Frankly, the term exnovation was perhaps doomed from its very definition.

And reasonably too. Iconic CEOs have grown in fame because of claims of being innovative. How many CEOs would you know of in the world who are worshipped because they exnovated? The answer might surprise you. Quite a few. And to understand this dichotomy, you'd have to first understand the correct definition of exnovation.

Exnovation does not actually mean propagating a philosophy of not innovating within the organisation. Exnovation in reality means that once a process has been tested, modulated and finally super-efficiently mastered and bested within the innovative circles of any organisation, there should be a critical system (aka Six

Sigma) that ensures that when this process is replicated across the various offices of the organisation, the process is not changed but is implemented in exactly the same manner in which it was made super-efficient; that is, no smart alec within the organisation should be allowed to tamper with the already super-efficient process. In other words, the responsibilty of innovation should be the mandate of specialised innovation units/teams within an organisation and should 'not' be encouraged to each and every individual within the organisation. The logic is that not every individual is competent at innovating – yet, everybody wishes to innovate, which is what can create a doomsday scenario within any organisation.

Exnovation is different from Six Sigma in as much that while Six Sigma's end focus was quality improvement combined with cost reductions, our concept Exnovation plainly focuses on absolute process replication and does not go beyond that. Six Sigma, in one perspective, is an extreme form of the exnovation strategy, not only replicating processes, but also attempting to reach unreachable levels of quality (3.4 defects maximum per million processes/products); while Exnovation is only about non-negotiable process replication, sans the quality madness.

Think of the case of two call centers, where credit card customers call when they wish to complain about their lost cards. Imagine one call center, where all employees are trained by exnovation managers to follow tried and tested responses and processes; imagine the other call center, where each employee is allowed independence in innovatively deciding how to respond to the calling

customer's lost card issue. Any guesses on which call center would ensure better productivity and customer satisfaction? Clearly, the one practising exnovation.

SIX SIGMA HAS NOTHING TO DO WITH QUALITY, BUT JUST WITH THE 'STIGMA' OF BEING OVERSTAFFED

And that, our dear CEOs, is the responsibility of the Exnovation units within an organisation – units staffed with managers and supervisors whose sole job it is to ensure that best practice processes and structures are followed to the tee and not tampered with within the organisation by individuals or teams without a formal mandate. Call them what you may (Green Belt, Black Belt, whatever) – but any manager responsible for ensuring replication and mirror implementation of any efficient process is an exnovation manager.

And it's a fact that CEOs and companies have thrived on practising this management philosophy of exnovation. The last time this $421.85 billion turnover company allowed each and every individual to innovate was much before its stock became a market-commodity on NYSE (on October 1, 1970). Till date, its "Save money. Live better" concept is based on standard processes, followed to the hilt and marginally improved over the years, to deliver maximum productivity and efficiencies. What gives this company's operations the push? Leveraging tested economies of scale (a process that economists have discussed over decades), sourcing materials from low price suppliers (simply put – common sense), using a well tested satellite-based IT system for logistics (a technology that was invented in the late 1950s; today, the company's

vehicles make about 120,000 daily trips to and/or from its 135 distribution centers spread across 38 states in US alone, a count equal to the average number of vehicles that use the Lincoln Tunnel per day in New York City) and smarter financial and inventory management called 'float' (the firm pays suppliers in 90 days, but plans its stocks so that it gets sold within 7 days). The company of course is Walmart, the world's largest corporation. Now that we're at it, when was the last time you heard of an innovation from this giant?

Let's take the example of another CEO. "After I came in as CEO, I looked at the world post-9/11 and realised that over the next 10 or 20 years, there just was not going to be much tailwind. It would be a more global market, it would be more driven by innovation. We have to change the company to become more innovation driven – in order to deal with this environment. It's the right thing for investors." Wise words from a wise CEO, spoken in the American summer of 2006, it seems. This protagonist was Geoffrey Immelt, appointed as the CEO of GE on September 7, 2001.

When he took over the mantle, the company having been led by his "strictly process-oriented" predecessor, had grown to become a $415 billion giant (m-cap). So how has his "innovation-driven-change" focus worked for his investors and shareholders [to whom he wanted to do right]? Ten years have gone by, and under him, the company has lost 58% of its value as of November 2011! And while America Inc. has become more profitable in the past decade, this company's bottomline has actually gone drier by 14.91%. The first thing this innovation-

lover of a CEO did when he took over control of this company was increase the company's R&D budget by a billion dollars more and spend another $100 million in renovation of the company's New York innovation centre. Well, loving innovation is not wrong. What is wrong is in forgetting that the best innovated products, processes and structures should not be tampered with!

In other words, what Immelt's predecessor Jack Welch had mastered. Immelt, later in an HBR paper titled, "Growth as a process", confessed, "I knew if I could define a process and set the right metrics, this company could go 100 miles an hour in the right direction. It took time though, to understand growth as a process. If I had worked that wheel-shaped 'execute-for-growth-process' diagram in 2001, I would have started with it. But in reality, you get these things by wallowing in them a while. Jack was a great teacher in this regard. I would see him wallow in something like Six Sigma."

But this is not to say that Jack Welch was against innovation – in fact, he loved it; but he ensured that not everybody in the organisation was allowed to do that. Immelt's paper does state that "under Jack Welch, GE's managers applied their imaginations relentlessly to the task of making work more efficient. Welch created a formidable toolkit and mindset to maintain bottomline discipline."

In a 2005 BusinessWeek interview, Immelt does point to a philosophy quite similar to our concept of Exnovation, "I look at Six Sigma as a foundation on which you can build more innovation. I don't think every manager can do both [Six Sigma and innovation], but I don't need every manager to do both." Read

EXNOVATION IS ABOUT ENSURING THAT BEST PRACTICES BEING REPLICATED ACROSS THE ORGANISATION ARE NOT TAMPERED WITH

it correctly, and what Immelt meant was that there should be dedicated people for different functions – like innovation and exnovation.

Going back to his predecessor, whatever best practices were innovated in GE's group companies, Welch ensured that the same were exnovated too and shared with other group companies in GE's Crontonville Training Centre and GE's Management Academy. And subsequently, such best practices were implemented throughout the group with a combination of commonsense and managerial judgement. From Six Sigma to the 20-70-10 rule, Welch was all about making GE's traditional strength – process orientation – religion for its employees.

Jack was perhaps the shrewdest implementor of Six Sigma. Rather than focus on fanatical quality benchmarks, Jack used Six Sigma as a mirror for Exnovation, that is, for replicating processes. And the individuals who did not fall in line with this philosophy? Jack Welch fired them. According to a June 2011 HBR article titled, 'You Can't Dictate Culture – but You Can Influence It', by Ron Ashkenas, Managing Partner of Schaffer Consulting and a co-author of The GE Work-Out, "The real turning point for GE's transformation came when Jack Welch publicly announced to his senior managers that he had fired two business leaders for not demonstrating the new behaviours of the company – despite having achieved exceptional financial results.]

Jack's tenure created wealth on a massive scale for GE shareholders – by 2,864.29% (to make it the world's most valuable company; with an m-cap of $415 billion, much ahead of the world's then second-most valuable Microsoft at $335 billion).

Talk about a petrochemical company which is the third-largest company in the world and the highest profit-maker ever (with $30.46 billion in bottomlines in FY2010). In the name of innovation, the last time you saw this company contribute was when it developed the naphtha steam cracking technology (which it uses till date to refine petrochemicals) in the 1940s. Since then, there have only been modifications on this technology. Even when others had started talking about bio-fuels and innovation, this company's CEO was adamant on continuing to invest in the technology that made what the $363.69 billion company (m-cap as on November 1, 2011) represented in the modern world.

"I am not an expert on biofuels. I am not an expert on farming. I don't have a lot of technology to add to moonshine. What are we going to bring to this area to create value for our shareholders that's differentiating? Because to just go in and invest like everybody else – well, why would a shareholder want to own Exxon Mobil?", said Rex Tillerson, the Chairman & CEO of Exxon Mobil – the second-largest Fortune 500 company. And this is what Fortune Senior Writer Geoff Colvin wrote in his article titled, 'Exxon = oil, g*dammit!' about Tillerson's attitude to innovate in fuels of the future: "The other supermajors are all proclaiming their greenness and investing in biofuels, wind power and solar power. Exxon

isn't. At Exxon it's all petroleum. Why isn't the company investing in less polluting energy sources like biofuels, wind, and solar? Remembering that Exxon is above all in the profit business, we know where to look for the answer. As a place to earn knockout returns on capital, alternative energy looks wobbly. It's a similar story for alternative fuels for power generation. Exxon just doesn't know much about building dams or burning agricultural waste. Its expertise is in oil and gas." Translation – Exxon continues to work on processes set and ignores what Tillerson calls moonshine [read: innovative fuels].

And to talk about how efficient and bottomline focussed this system at Exxon has become, Colvin has some lines to add: "At this supremely important job, it is a world champion. All the major oil companies bear about the same capital cost, just over 6%. But Exxon earns a return that trounces its competitors. Others could be pumping oil from the same platform, and Exxon would make more money on it. It is like taking the same train to work, but they get to the office first." Can the way the most valuable company on Earth functions be some lesson for exnovation managers? Of course.

Next, the auto majors. Since Henry Ford introduced real innovation in the industry in the form of the assembly line, the Ford Motor Company hasn't had much to boast about in this regard. And yet, it became the only Detroit major to bounce back without a Fed bailout. And how about the real innovator? Appears, being an innovator does not pay well in the auto industry too! General Motors was ranked the #1 innovator (among 184 companies) by The Patent Board in its automotive and transportation

industry scorecard for 2011. But all this came at the cost of the company's bottomlines which bled $76.15 billion in the seven years leading to 2010 [and this is not considering the fateful year 2009 when GM got a fresh lease of life with the US Fed pumping-in a huge $52 billion that ultimately saved America's innovation pride]. And what about investors? If GM has the patents and is the king of innovation, should it not have been the best bet for investors?

WALMART AND GENERAL ELECTRIC HAVE BEEN THE TOP TWO EXAMPLES OF COMPANIES FOLLOWING EXNOVATION TO THE TEE

Count the numbers and decide: if an investor had invested $100 in GM stock exactly 10 years back, he would have just $78.42 left in his trading account – a return of negative 21.58%! Had the same sum been invested in four of the other big automakers in the world, the reading would have been quite different. Investing in Ford, the investor would have gained 22.72%, in Toyota: 39.52%, in Hyundai Motors: 89.4%, and in Volkswagen: 364.32%!

These are companies that focus on design and maintaining a procedure that helps create cars with set standards of quality – not innovate or lead the rush for patents in clean-energy fuels! Message for GM – instead of investing billions of taxpayers' funds in developing green-fuel and propulsion technologies, put people on a production process that will help launch more variants of the small diesel car (the Chevrolet Beat) for the BRIC markets. That should suffice. Exnovate – like Toyota does

with its production system that follows the 5S, Kaizen and Jidoka philosophies – and create a process of continuous improvement in small increments that make the system more efficient, effective & adaptable.

In his May 2007 best-seller 'The Myths of Innovation', author Scott Berkun [who had worked on the Internet Explorer development team at Microsoft from 1994-1999], using lessons from the history of innovation, breaks apart one powerful myth about innovation – popular in the world of business. "Competence trumps innovation. If you suck at what you do, being innovative will not help you. Business is driven by providing value to customers and often that can be done without innovation: make a good and needed thing, sell it at a good price, and advertise with confidence. If you can do those three things consistently you'll beat most of your competitors, since they are hard to do: many industries have market leaders that fail in this criteria. If you need innovations to achieve those three things, great, have a go at it. If not, your lack of innovation isn't your biggest problem. Asking for examples kills hype dead. Just say 'can you show me your latest innovation?' Most people who use the word don't have examples – they don't know what they're saying and that's why they're addicted to the i-word." The fundamental question really is – could airlines like Singapore Airlines, Virgin Airways, China Southern, United Airways, KLM Royal Dutch Airlines and Korean Air maintain their near 100% On-Time departure record for flights to and from India (for Aurgust 2011; as per DGCA) had each of their management heads, employees and pilots innovated in their transactions?

No. [That would surely have disastrous consequences!] Would renowned hospitals for heart surgeries be the same safe place for patients if their doctors were to innovate their processes and dig out new surgery styles each time? No. [Absurd!] Would Chinese steel companies like Hebei Iron and Steel, Baosteel Group, Wuhan Iron and Steel, Jiangsu Shagang and Shandong Iron and Steel Group feature in the world's top ten volume producers of steel (source: World Steel Organisation, 2011) had they innovated on the manufacturing method every single day? Impossibly no!

But really, we repeat ad nauseam that exnovation is not about refusing innovation within the company. Yes, a few of our examples may give off that air, but really, exnovation engenders an ideology that only some employees are gifted enough to analyse and innovate processes – and therefore such elitist employees should be placed in specialised innovation units with a sole responsibility to check processes and structures throughout the organisation and to innovatively improve them in whichever way possible. Employees who don't have such innovative capacities may be better at simply implementing or following the processes; such employees should therefore be trained to 'not innovate' by exnovation managers.

To ensure the success of exnovation, you need exnovation managers at every level of the organisation (just like the Green Belts/Black Belts in Six Sigma – not fanatically looking at improving quality, but simply concerned with replicating processes – or like the Visioning Groups mentioned in the additional chapter in this book's Epilogue) who ensure that no bested process

RATHER THAN FOCUS ON FANATICAL QUALITY BENCHMARKS, JACK WELCH USED SIX SIGMA AS A MIRROR FOR EXNOVATION

is tampered with.

The world believes that Steve Jobs was a great innovator. We would rather say he was the world's second greatest exnovator – one who ensured that even his renovation teams had to follow a structured time driven process to come up with well-copied solutions and products. And when they did, the same was exnovated across all of Apple's divisions and offices. That was the wonder of Steve Jobs.

We again refer to Jim Collins' iconic article for the Fortune magazine, titled The 10 Greatest CEOs Of All Time. Jim ranked at #1 on this all time list, Charles Coffin, about whom we've mentioned in earlier chapters too. Jim wrote in that article, "Coffin oversaw two social innovations of huge significance: America's first research laboratory and the idea of systematic management development. While Edison was essentially a genius with a thousand helpers, Coffin created a system of genius that did not depend on him. Like the founders of America, he created the ideology and mechanisms that made his institution one of the world's most enduring and widely emulated." If this is not one of the greatest combinations of innovation with exnovation, then what is? The institution Coffin co-founded with Edison was GE. Coffin passed away in 1926. Till date, he remains for us the world's greatest exnovator.

Read the Epilogue (chapter titled Capabilities and Competencies) for a related understanding of Exnovation.

6
SECOND MOVERS' ADVANTAGE

FIRST LOSER'S ADVANTAGE; FIRST MOVER'S DISADVANTAGE

The global business acumen is populated with a multitude of mildewed and hollow adages that fail to equip companies with knowledge to reap extraordinary benefits; First Movers' Advantage is one such hogwash.

The first movers' advantage (let's call it FMA) typically forwarded an ideology that it was always profitable to be the first company to introduce a new product in the market; or to be the first company to enter a new market and so on so forth. Competition under the FMA theory was like a 100 metres race; the first off the blocks has a higher probability of reaching the finish line first. The first to the buffet table gets to eat the maximum. And so

"I BELIEVE THAT THE BEST STRATEGY FOR THE FIRST PERSON IS TO BE SECOND!", HENRY FORD, FOUNDER, FORD AUTOMOBILES

on so forth. As glamorous as the proposition might sound, sceptics started popping up in the late 90s and early 2000s; evidence started coming up that companies attempting to be first movers were suffering gut wrenching losses, if not getting wiped out completely. We decided to investigate the concept and find out what stand should you take as a CEO; what stand is taken by the world's leading CEOs? Should you engender a take-no-prisoners attitude and go for FMA at all costs? Or is there growing logic for you to withdraw from the race of being the first mover?

We're reminded of an interesting quote by the quite foresightful Henry Ford, who himself was known a first mover (having pioneered the automobile). He in fact had once commented, "I believe that the best strategy for the first person is to be second!" One suspects that given global studies coming up right now, he may well have been right.

What's common between Vivola, Erwise, Midas and Mosaic? All four, individually claimed that they created the browser market. Their hard work translated into a business idea for late-mover Bill Gates. As of September 2011, Microsoft's Internet Explorer commanded a 57.15% control over the global browser market (data by Net Applications).

Being the first to stake a claim on a new territory doesn't ensure sustainability. Sadly, it doesn't even guarantee advantages as was originally believed. Take the

case of the lesser known Prodigy Communications. It was an early bird in the business of online connections, which it entered in 1984, along with huge brand names to guarantee it success: there was IBM's technology for its operations, Sears Roebuck heading its online retail and CBS for news coverage and selling of ad-space. Twelve years later, it was sold to a private investor group for just $250 million.

We've already seen in the chapter on R&D and Technology in this book how Steve Jobs never invented either the tablet technology or portable music players (The Pencept corporation was the first to introduce tablet computers in 1981-82; an individual called Kane Kramer invented the portable digital audio player in 1979; in 2008, in a court case involving iPod, Apple got Kramer as a consultant for support); Jobs only fantastically marketed his well designed products well – super efficient non-innovator, second mover, who, as per Booz Allen's Global Innovation Study report 2011, always under invested in R&D compared to competitors.

BlackBerry never invented wireless email; it was NTP Inc (BlackBerry-maker RIM was forced to pay-up $612.5 million on March 3, 2006, by a US court to NTP Inc.; one of the earliest patent-holders of wireless email).

But there's at least one technology people believe Jobs invented – and that's GUI, or Graphical User Interface (the human-computer interface you see on modern computer screens). People are wrong. GUI in fact was developed by the Xerox Corporation at their Palo Alto Research Center (PARC) in the 1970s. Steve Jobs visited PARC in 1979 and was impressed by the Xerox Alto, the first computer

with a GUI feature. He offered Xerox a chance to invest $1 million in Apple pre-IPO stock, in lieu of two visits to PARC with his engineers. Today, none remember that the Xerox Alto was the first computer with a GUI; for the world, it is the Apple Lisa, which simply "renovated" the technology which Jobs saw at Xerox. (Xerox sued Apple on April 10, 1990, for infringement of Xerox's GUI technology). It's interesting how one man can prove the case for the late movers so well. As we said, Steve Jobs didn't invent the portable music player, or the first laptop, or even the first smartphone. He only followed, and followed right! His iPod, iMac & iPhone have become best sellers.

There are many examples of how the first mover lot has been one who has been long forgotten. Names like King Kullen Grocery Inc. (which pioneered supermarkets in America in 1884), Minnetonka (which produced the world's first liquid soap), Ampex (maker of the first VCRs, which lived for just two decades), Chux (from J&J, which was the first disposable diaper brand), Micro Instrumentation & Telemetry Systems (which pioneered personal computing with the Altair), Visicalc (the first desktop spreadsheet program), Atari (which brought to market the first video game), Dumont (which led the way in selling television sets), and many more, have been relegated to the dust-laden history books. And to talk about the new age champions, they are all those which learnt from the mistakes of the early birds.

Walmart was not the pioneer of retail. Excel was not the first spreadsheet to hit desktops. Commercial aircraft were not the brainchild of Boeing or Airbus. Neither did

Disney start a theme-based park, nor was Starbucks the first to sell gourmet coffee. It's true: they were not the first, they had learnt well and did better!

NEITHER DID STEVE JOBS INVENT THE FIRST PORTABLE DIGITAL MUSIC PLAYER, NOR THE FIRST LAPTOP, OR THE TABLE PC OR THE SMARTPHONE

The criticism is supported well by research too. Researchers David Montgomery (Stanford University) and Marvin Lieberman (University of California), in their paper titled 'First Mover Advantages...' stated that the ability "to 'free ride' on first-mover investments and resolution of technological and market uncertainty" comes as an advantage to second movers. "Pioneers often miss the best opportunities, which are obscured by technological and market uncertainties. In effect, early entrants may acquire the 'wrong' resources, which prove to be of limited value as the market evolves," added the duo. Even in traditional industries, Richard B. McKenzie of the University of California, proved through an extensive study how failure rates for pioneers, were 71%, with their lot controlling just a pathetic average market share of 6%.

A research by professors Markus Christen (INSEAD) and William Boulding (Duke University) also testifies thus, "We found that pioneers in consumer goods had an ROI of 3.78% lower than later entrants. And the ROI of first movers was 4.24% lower than followers in the industrial goods sector. Bottomline: Pioneers [and first movers] were substantially less profitable than followers

over the long run, controlling for all other factors that could account for performance differences."

Dr. Richard Schmalensee, the Howard W. Johnson Professor of Economics and Management at Massachusetts Institute of Technology (MIT) and Director of the MIT Center for Energy and Environmental Policy Research, in an exemplary discourse in May 2006 (in which he amusingly quoted, "I have the disadvantage of having actually studied the first mover's advantage...") proved not only how first movers were at a major disadvantage, but also that "there were plenty of industries where the first movers got killed!"

D. Kalicanin, Economics faculty, University of Belgrade, while outlining the myth of first movers' advantage, notes in his paper titled 'A Question Of Strategy: To be a Pioneer or a Follower', "Historically, the advantages of being a pioneer have been promoted to a much greater extent than the risks... It is logical that risks associated in a completely new product are greater than those associated with incremental product changes."

Professors Smirnov and Wait, faculties of economics, University of Sydney, also devastated the supposed advantages associated with first movers. Their report titled, 'Second-movers advantage in a market entry game', conclusively puts forward the fact that each player "prefers to be a follower rather than a leader in the market, perhaps because they can free ride on the other party's investment... The second entrant into a new market often does better than the first firm that entered. If a firm could commit to being the second entrant it would be better-off."

"INFORMATIONAL ADVANTAGE ENABLES THE FOLLOWER TO ATTAIN HIGHER MARKET SHARE AND PROFITS," ENPC, HONG KONG UNIVERSITY STUDY

Rhee (Hong Kong University), Palma (Universite de Cergy, France) and Thisse (ENPC, France) in their paper titled 'First-Movers Disadvantage...' supported the fact that the follower "has an informational advantage not only because it directly observes market conditions, but because it makes inferences about market conditions based on the first-mover's quantity choice. Thus, informational advantage enables the follower to attain higher market share and profits."

Another sparkling paper by Lieberman titled, 'Did First-Mover Advantage Survive the Dot-Com Crash?' statistically proves how, "benefits of early entry appear much less pronounced when firm survival is used as the performance measure." This fact was also vindicated by Min (California State University), Robinson and Kalwani (Purdue University) through their paper titled, Market Pioneer and Early Follower Survival Risks... which statistically proves how, "When the pioneer starts a new market with a really new product, it can be a major challenge just to survive... Overall, these results indicate that in markets started by a really new product, the first to market is often the first to fail."

It's clear that competition is not a 100 metre race, as proponents earlier claimed, but is more like a 40 kilometer marathon, where it doesn't matter who is first off the blocks. What matters more is how well one lasts

the whole distance and learns from the mistakes of those ahead. Imagine driving a car at 120 miles an hour on a completely pitch dark highway in the middle of the night. Now, wouldn't you give a king's ransom to have another car ahead driving at the same speed giving you an advance notice of the bumps and ditches? In other words, if your R&D department forwards you the biggest innovation of this century... just send the stuff across to your biggest competitor!

For a better understanding of the power of the second mover, we suggest that you should refer to Thorns to Competition, where the concept has been explained in greater depth

7
CONTROVERSIES AND CORPORATE REPUTATION

AL CAPONE IN ALCATRAZ!

Do civil & class action lawsuits hurt your shareholders? Do patent litigations erode your company's reputation? Do investors view your courtroom engagements as a sign to dump your stock? Or are legal cases simply much ado about nothing with no effect on your stock prices?

There is Butch Cassidy and there is Walmart. Much talked about and forced to run the gauntlet of protectors of the legal system, the similarities are strong. There is a difference though. As much as Cassidy enjoyed biking around on Wyoming's mountainous curves with the Sundance Kid, keeping his shirt collar a good distance from the Sheriff's grasp, Walmart is a behemoth that does not mind sauntering down the courtroom corridors.

SHOULD A COMPANY PURSUE TO PUBLICLY DEFEND COURT CASES AND LITIGATION OR SHOULD IT TAKE THE PRIVATE, SILENT, NON-MEDIA PATH?

Its autobiography is strewn with litigations. But isn't this bad logic, to be a target of and to be a propagator of various lawsuits?

Walmart is the poster boy of the retail revolution, and the #1 2011 Fortune 500 giant. Against Walmart, the cases have covered various spaces – not paying suppliers on time, gender discrimination, failure to dole-out fringe benefits to part-timers, deliberate selling of low-quality items, unfair remuneration and promotion-related policies, paying low wages (a lawsuit filed in 2001 stated that the average wage for a Walmart sales attendant was $13,861 a year, while the federal poverty line for a family of three was $14,630), environment-related and other accusations by government agencies et al. Suing the Bentonville retailer has become a wholesale affair, with the average count of lawsuits filed against it touching 5,000 per year (as per a Forbes report). But how much of a difference have the aspiring attorneys and plaintiffs made to the reputation and earnings of Walmart?

Numbers are proof. Yes, since 2001, the company has paid more than $2.5 billion in lawsuit settlements. But the parallel tale is that during the same decade, while the company has opened 4,266 new outlets in 16 countries around the world, the company's m-cap has increased by $67.54 billion. As far as revenues go, the figures have improved 155.67% (despite two downturns since FY2000) to touch $421.85 billion (FY 2010). The forecasts are

bright. The company is fast approaching the $500 billion sales-barrier, with estimates of $439.81 billion and $461.86 billion for FY2011 & FY2012 respectively (as per Thomson Financial). Truth is: the company has grown from strength to strength despite umpteen disputes. And it has not been a strategy of hiding in a blanket of silence. The company is combining the wave of allegations with a strong focus on marketing and advertising to maximise opportunities to turn 'negative' headlines into huge recall exercises. Imagine this – every single day of FY2010, on average, the company spent $65.75 million on advertising, marking an increase of 14% y-o-y. Little wonder that the retailer is up for a better 2011 & 2012, with buyers across America and the world indoctrinated to the Walmart culture.

There's another example - Bank of America (BofA). When Jim Sinegal, Associate Director of Morningstar, spoke to Business & Economy magazine (a Planman Media Publication) in September 2011, he had said that, "Thanks primarily to its $4 billion acquisition of Countrywide in 2008, BofA now possesses tens of billions of dollars in potential legal liabilities. Earnings must improve substantially in order for the bank to achieve escape velocity from the weight of billions of dollars in legacy mortgage-related liabilities threatening to reduce capital to unacceptable levels." The liabilities and lawsuits came knocking on BofA's door. So did prosperity. The quarter ended September 30, 2011, saw the bank record one of the most prosperous quarters in its 107 year history – a net profit of $6.23 billion! [And this had followed a total of $8.96 billion in the three preceding quarters and

another $5.79 billion in FYs 2009 and 2010. Remarkable coincidence, shouldn't you say?]

As for those who believe that legal affairs raise questions about a firm character, here is a correction: they don't. And this is where we come back to Sam Walton's brainchild. Had litigations mattered, the percentage of American households visiting Walmart would never been as high as 83% (in FY2010). Had litigations mattered, the company-in-question would have always seen its stock crash on news of civil or class action charges. Well, it does not occur in that manner. On June 19, 2001, six Walmart employees from California, Illinois, Ohio, Texas & Florida filed a nationwide gender discrimination class action lawsuit against it. The charge brought together about 1.5 million former and present employees, and was meant to be the biggest class action suit against any company in American history, with damage claims running into billions of dollars. That day, the Walmart stock closed 0.69% higher. It gained a further 3.41% the next trading session. The case was last heard by the Supreme Court on March 29, 2011. And despite expectations of a multi-billion dollar setback to Walmart, the stock saw a rise of 0.13% the day before the hearing date. Though it is hard to also understand why the stock rose just 0.15% on April 1, 2011 (the day the Supreme Court ruled that the class action case against Wal-Mart must be reversed), we may safely assume that courtroom engagements (involving well known corporate brands) have little say in describing negative market sentiments for their stocks.

Here is what Larry McQuillan, Director, Pacific Resource Institute explains in a report titled, Wal-

Mart Stands Up To Wave Of Lawsuits: "Fighting lawsuits makes the most long-term sense. The trial bar's strategy against corporate America up to now has been to file a suit and bring the company to the table to get a settlement out of it. Wal-Mart has been a leader in not bowing to those pressures, unlike many companies that are afraid of bad publicity and want to settle. If you don't defend yourself early on, and be persistent, you will be steamrolled." Adds Prof. Kathryn Harrigan of Columbia Business School, "I would litigate everything. And if in the end, the law made me do something, I'd fight to make sure my competitors had to do it as well. Shareholders shouldn't be overly concerned about litigation exposure, because it's a small price to pay."

WALMART IS A PRISTINE EXAMPLE OF A CORPORATION THAT HAS PUBLICLY DEFENDED SUITS, AND INCREASED ITS MARKET SHARE IN RETURN

This one instance is not the only encouraging spotlight for shareholders in a seemingly apocalyptic wasteland. 596 pharmacists in Colorado won $45 million in damages against the discount retailer on May 9, 2003. When trading closed that day, the stock had appreciated by 1.43%. On Dec. 22, 2005, the Alameda County Superior Court in Oakland, California slapped a fine of $172 million against Walmart for violating a State law. The stock rose 0.23% that day. On Dec. 3, 2009, a Boston court stuck up a $40 million bill on Walmart's front door. Stock price change: a positive 0.89%.

There are other Al Capones too. Courtroom battles in the world of technology are common. Apple Inc. knows

that well. It has been involved in many patent infringement cases over the past decade – both as an accused and as the plaintiff. From paying up The Beatles $26.5 million and deciding to stay out of the music industry on December 8, 1991 (till it launched the iTunes), to selling faulty MacBook LCD screens and iPads with battery that had overheating issues, it has taken it well. Rather, too well. And the investors are the happiest lot. From the time late Steve Jobs returned to Apple in late 1996, the company's Mcap increased by more than 11000%.

And the rise happened during a period when it was busy being slammed with court papers by companies like Cisco (on Jan. 10, 2007, for infringing upon and copying and using Cisco's registered iPhone trademark, a day after Jobs revealed Apple's new bet, the iPhone; the Apple stock gained 4.07% that day), Nokia (for infringing on Nokia's patents in virtually all of its mobile phones, portable music players and computers; two complaints, of which the last was on Mar. 29, 2011 – stock rise of 0.16%), Xerox (sued Apple on April 10, 1990, for stealing Xerox's GUI technology, which gave birth to Apple's then-best-selling Macintosh PC – stock gain of 3.32%) et al. Apple has not been a silent observer either. Its cases against Nokia, HTC (on March 2, 2010, Apple sued HTC over 20 patent infringements with regards to its iPhone; HTC fired back by claiming that Apple had violated five patents), Microsoft (ruling given against Apple on September 1994, in a case where Apple tried to prevent Microsoft and HP from using GUI elements), and many more are proof that litigation is only a part of the larger brand-building process meant to be accepted with a spirit

of more youthful optimism.

Not convinced yet? Here's the big bite. On Oct. 1, 2010, the US Eastern District of Texas held up a $625.5 million damages claim against Apple (for violating digi-tech patents held by Mirror Worlds) – the 4th largest patent verdict passed in US history & the largest for 2010. It was meant to send the Apple stock plunging. Quite the contrary happened. When markets opened the next week, within two trading sessions, the stock gained 3.70% – an m-cap gain of $9.49 billion.

After a long-drawn battle of 4 years, BlackBerry-maker RIM was forced to pay-up $612.5 million on March 3, 2006, by a US court to NTP Inc. (one of the earliest patent-holders of wireless email). The sum was meant to settle a dispute over RIM's email service made available for its 3 million users.

The verdict then was supposed to not just bring RIM into the scanner of many watchdogs, it was also predicted to put an end to the entire BlackBerry network in US and raise questions on its future. This is what appeared in an online Fortune article post the verdict, "The price of RIM's shares was halted at $72.00 at 4:37 pm in anticipation of the announcement. RIM's stock price soared after shares began trading after-hours, reaching as high as $86.30 in after-hours trade." RIM's mcap had risen by $2.65 billion (19.86%) to touch $15.97 billion when the day ended. If such huge courtroom verdicts were destined to reduce citadels to dust, RIM would have been much smaller than it is today. Perhaps gone. The reality is different. Its user base in 4 years has swollen by 1733% to 55 million and its m-cap has risen to around $28.79 billion.

RIM, APPLE, WALMART, BOFA, ALMOST IN EVERY CASE, POST A LITIGATION AGAINST THEM, THE STOCK VALUATION HAS IMPROVED

There seems to be a common belief that involvement in lawsuits will "always" lead to negative returns for shareholders and a poor financial reporting. Untrue. Prof. David Yermack of Stern School of Business (NYU) & Prof. S. Dahiya of Georgetown University, in their paper titled, 'Litigation Exposure, Capital Structure, and Shareholder Value', while analysing the case of value creation and destruction in the tobacco industry, concluded how companies have gained in the past by following a strategy of radical litigation. They took the case of Brooke Group CEO Bennett LeBow, who believed that civil suits had positive outcomes. The paper concludes, "Brooke Group had a tiny market share, low margins, high leverage, and highly concentrated management ownership. Beginning in 1996, the firm reached settlements in lawsuits brought by class action plaintiffs and US state governments. These events led to impressive returns for shareholders of Brooke Group."

Even in the case of a shareholder litigation (which is considered the most vicious of all litigation types), as Prof. Georgi D. Kaltchev of International University College (Bulgaria) proves, the probability of shareholder wealth falling is low. In his November 2009 paper titled, 'Securities litigation and stock returns', Kaltchev proves how his hypothesis "that shareholder litigation announcements negatively affect stock returns, only finds

partial support." As per him, in more than 67% of the cases, wealth is not lost.

For companies that earn their bread and butter in the IT space, absence of right positioning is poison. Why is it that Microsoft and Dell have lost tremendous value in the market, even when they have been quick to move to new emerging markets and have innovated for whatever its worth? Blame their positioning strategies, not litigation. About 10 years back (January 3, 2000), Microsoft was the most valuable company in the world with an m-cap of $466 billion. Then, besides 500-odd court cases, a series of marketing hiccups occurred. The Vista failed, the 'Courier' tablet idea planned for launch in early 2009 was dumped, its entry into the handset hardware market with the Kin was a disaster, the Zune music player was also an out-and-out failure, and its Windows software for smartphones has only recently found a platform with Nokia.

Of course, Microsoft's SQL Server has made news, but then, what's so great about a database server when everyone has already started talking about cloud computing? For Microsoft, the litigations have played against investor sentiments due to absence of proper positioning. Microsoft has lost 53.52% of its value since 2000, Dell & Motorola are no different. From m-caps of $111 billion & $56 billion a decade back, the companies are today valued at around $27.51 billion & $14.87 billion – reductions of 75.22% & 73.45%.

Pharmaceutical companies over decades have been known to live through patent infringement lawsuits. The count of these in US increased from 81 in FY2005 to

over 243 in FY2010. During the same period, generic players (which were taken to court by Big Pharma), have won 70% of the cases – which directly translates to $60 million in revenues during the first six months for the generic players. This gain, after spending $5 million on an average on each challenge, sounds quite a deal. As new drug development pipelines are drying up, with no new blockbuster in sight till at least 2015, the next three-four years will witness many more litigations, where it could mean an increasing count of generics suing generics! In short – the lawsuits will get to you sooner than you thought. Gear up.

Indisputable research from across the globe proves how reputation and performance has little in common. Professors Chung, Eneroth and Schneeweis of University of Massachusetts, in their paper titled 'Corporate Reputation and Investment Performance', prove, "There exists little relationship between high corporate reputation rankings and a firm's equity performance. It is primarily a firm's equity market performance... that affects published reputation ranking, and ranking has no impact on the firm's future returns." To that effect, even Professor Hungtao Tan of Southwestern University of Finance and Economics, in 2007, concluded in his report 'Corporate Reputation & Earnings Quality', "I find no evidence to support that companies with good reputation share superior earnings relative to the corresponding industry levels."

To the utter consternation of doubting Thomases, global authorities S. Brammer (University of Bath), C. Brooks (Cass Business School) and S. Pavelin (University

of Reading), in their classic international December 2005 report, 'Corporate Reputation and Stock Returns', state, "There is no such thing as bad publicity. We find that those firm's whose [reputation] scores have fallen substantially still exhibit positive abnormal [stock] returns in both the short and long run!" Famed Doctors Rajiv Sarin and Brit Grosskopf from the Department of Economics, Texas A&M University, in their world class August 2006 thesis, 'Is Reputation Good or Bad? An Experiment', ruthlessly devastate past notions and establish, "Reputation is not bad, but neither is it as good as previously thought... as long run players are able to do equally well without having reputations."

"COMPANIES HAVE GAINED IN THE PAST BY FOLLOWING A STRATEGY OF RADICAL LITIGATION," NYU, GEORGETOWN UNIVERSITY STUDY

And it's not just about controversies or reputations per se, but even about the pathetically manipulated agendas that ranking agencies globally have. In their universally published covenant (The Reputation Quotient), Dr. Charles J. Fombrun, professor of management at Stern School of Business, and Dr. Christopher B. Foss, Associate Director of the Reputation Institute, state, "Measures of reputation proliferate, encouraging chaos and confusion... Some are arbitrarily performed by private panels... Some are carried out with private information and are unverifiable." And now, report after report [NYSE CEO Report 2010, SMU Cox CEO Sentiment Survey 2010] prove that CEOs don't give priority anymore to reputation or to published rankings,

but only to performance. Moving ahead, Authorities G. Chen and Dean Tjosvold of Tsinghua University, Beijing, in June 2006, analysed that "participation and people values, coupled with constructive controversy, provide a foundation for effective CEO leadership!"

And why not! The most successful of global CEOs ever – Steve Jobs, Jack Welch, Steven Ballmer, Larry Ellison, Lee Scott – have been those who have been most controversial. The most successful of global companies – WalMart, Chevron, GE, BoA, Citigroup – have been the most controversial. If you thought the amazingly successful movie, Erin Brockovich, ran full house because Julia Roberts 'controversially' revealed more than her usual self, you perhaps forget, 30 sickening million gallons of oil spilt in Brooklyn, New York, that led to a historic never-before seen $58 billion class action suit, was targeted at a company that is now the world's most profitable company ever, Exxon-Mobil (with 2010 revenues of $354.67 billion and profits of $30.46 billion)! Quick, answer our questions. Most controversial book? You said Da Vinci Code, did you? Or The Satanic Verses? Both historic best sellers. Most controversial brand? Coke? It's the most valued brand ever!

There is a joke which does the rounds in America. After the Feds, it's Walmart which handles the maximum summons. Consider this; how many will be surprised if you told them that companies in the technology & telecom industry are the ones sued the most (with drug makers at #2)? Our guess is – none. And our advise is, ride on the opportunities. This time, they come in the name of litigations. If the courtroom-savvy-employee

whipping Walmart can, if the patent-fighting-Xerox GUI-borrowing Apple can, so can any other company. Advertise, innovate, grow, and don't you worry about litigations or bad reputation. They'll only make your stock price go higher. And anyway, litigation never could catch even Al Capone on that.

Subsequently, we come to another important reputation issue that almost every company, one time or the other, has to weigh in.

PRODUCT RECALLS; A CURSE OR A GOOD NEWS? SHOULD YOU OPENLY ACCEPT A PRODUCT BEING RECALLED?

Product recalls have earned much criticism over time. First, it was considered a taboo with consequences that could spell doomsday for the accused. Then, it made the shareholders utterly uncomfortable. Today, the CEOs are being forced to embrace it as a part and parcel of their lives. After all, is a product recall so unforgivable an act?

What's it with product recalls that gets the world staring at the accused with a frown-filled skeptical look? Profit-seeking investors count such actions on behalf of the corporations as just another signal of failure heaped upon failure. But the inevitable truth is – the buck stops at the CEO, or in other words, the man at the top! Our discussion focuses on the slamming of the Babson College educated Akio Toyoda, whose family-heirloom Toyota Motor Corporation amassed recalls of 8.4 million vehicle units during 2010, which included the iconic Prius, Corolla and Camry models. The US government, of course, gave him a stick of its own – $16.4 million

"THERE EXISTS LITTLE RELATIONSHIP BETWEEN HIGH CORPORATE REPUTATION RANKINGS AND A FIRM'S EQUITY PERFORMANCE," MASSACHUSETTS UNIV

in fines payable to US Safety Regulators for failing to warn about the defects on a proactive basis. Meanwhile, work went on at Toyota's plants.

A majority of the studies conducted over decades on product recalls comment that recalls, in general, tear down both investor and consumer sentiments. Some have gone to the extent of even quantifying how disastrous recalls can prove to bottomlines and share prices. One such report published in the Quarterly Journal of Business and Economics claims after analysing 269 product recalls over a period of 20 years that the mean cumulative abnormal returns (MCAR) were negative over the post event period, hovering around 3% from day 13 to 36, with the largest MCAR being -3.55% on event days 19 and 20. Several studies in the past by Jarell & Peltzman (1985), Pruitt & Peterson (1986), Hoffer (1987), Bromiley & Marcus (1989), Davidson and Worell (1992), Thomsen & McKenzie (2002), Chu, Lin & Prather (2005), Heerd, Helsen & Dekimpe (2007), Chen, Ganesan & Liu (2008), Zhao & Stephen (2009) have also proven that product recalls are associated with decrease in shareholder value.

But that's where we realised that many of these studies, perhaps all of them we dare say, got it critically wrong. All these above mentioned works suffered a common ailment – the observation window was "limited" to anywhere between -1/+1 (days) and -60/+60 (days) of the recall

announcement. What about the longer term effect? The fact is that contrary to what these reports mention, product recalls in fact should have been improving the customer perception about a corporation's commitment to quality, especially as the company helps 'correct' a past mistake transparently and truthfully. Was this hypothesis of ours correct?

We decided to do a deeper and a wider time window analysis of the five most publicized product recalls in history (considering volumes as well), and see whether these recalls added to or negated from the company's future performance.

TOYOTA'S RECALL OF 8.4 MILLION VEHICLES IN 2010

After posting losses of $4.8 billion in FY2009, the Japanese carmaker had the worst start to the new year amongst all auto makers, at least as far as brand image and goodwill were concerned. But that's where the black suit ceremony ends. The Japanese car manufacturer emerged extremely confident about a quick recovery and managed a huge profit of $4.76 billion in FY2010 – a far improved situation as compared to the previously forecasted loss of $2.2 billion by the company.

And here's a treat for shareholders who have been plagued by hearsay about how recalls lead to value erosion. Even as news of how Toyota planned to exceed its initial recall estimates started doing the rounds on February 5, 2010 (with an additional recall of 270,000 Prius units in US & Japan, to fix their brakes), the company's share surprisingly rose 4.1% to close at $74.71 on the NYSE.

That was a day when even the Nikkei 225 fell by 2.9% to a 60-day closing low. The five year comparative analysis of the Toyota share performance on NYSE vis-a-vis the S&P 500 shows that the auto maker has beaten the benchmark index consistently over the past half-a-decade, and that the recalls haven't spoilt Toyota's game.

Lesson: If you've earned goodwill already, even a couple of record-setting recalls won't hurt, as Bob Johnston, Deputy Dean (Operations and Finance), Professor of Operations Management of Warwick Business Schools puts it in a line: "Companies can get away with recalls once or twice in a period of time!" We should add, "Too profitably!"

FORD'S RECALL OF 14.1 MILLION VEHICLES IN 2009-10

Another auto major, another record. Having recalled 4.5 million vehicles in October 2009, Ford Motor Company recorded the highest aggregate number of recalls in history in a single stretch. The record – 14.1 million units. That should have destroyed all hopes for the Detroit carmaker, which was supposedly in the worst shape when 2009 began, having made $17.3 billion in cumulative losses during FY2007 and FY2008. But instead of moving downhill, the figures climbed and share prices shot up. In the year ending June 2010, the Ford stock had gained 98% in value, outperforming the S&P 500 by a long way. When FY2009 came to a close, instead of recording a negative bottomline (as was anticipated amidst the recalls), the Alan Mulally-led giant got the better of cynics, scoring a positive bottomline of $2.71 billion. The second quarter of 2011 saw the company

post pre-tax profits of $2.9 billion, the eighth consecutive quarter of profitability.

Lesson: Having a super dual-role performing man on top (CEO & President) like Mulally helps. Recalls do too!

"NO EVIDENCE TO SUPPORT THAT COMPANIES WITH GOOD REPUTATION HAVE SUPERIOR EARNINGS," SOUTHWESTERN UNIVERSITY

J&J'S RECALL OF 84 MILLION UNITS IN 1982 & 2010

Within a span of a week in 1982, seven Chicago dwellers died without a serious ailment. Reason: they had consumed the 'Extra Strength Tylenol pain-and-fever reliever'. The catch? It was cyanide-laced. This forced McNeil Healthcare (Johnson & Johnson's consumer healthcare subsidiary) to recall 31 million units of Tylenol. The move was made with all haste. By the time the year ended, J&J's stock had actually gained 38.9% in value to touch $1.75 on the NYSE! The year 2009 and 2010 saw a repeat. The company recalled 53 million units of Tylenol on two occasions – December 18, 2009 and January 15, 2010.

The stage was set for the recalls to fracture the first quarter results and share prices of J&J. Worse, unlike eighteen years back, the company had withdrawn the compound after 20 months of complaints. It had acted slowly. Critically, the troublesome consumer healthcare category contributed to 24.12% of revenues for J&J. But the markets chose to move against expectations. There were immediate positive gains. A day following the recall of December 18, 2009, the J&J stock climbed by

GO PUBLIC WHEN YOU FIGHT LITIGATION; AND DON'T WORRY ABOUT BAD REPUTATION; BOTH HELP INCREASE SHAREHOLDERS' WEALTH

0.25%, and following the recall of January 15, 2010, the stock gained 1.23% in the next trading session! As far as financials are concerned, J&J recorded a 29.1% y-o-y increase in quarterly profits, which touched $4.53 billion for Q1, 2010 and a 28.6% increase in EPS which stood at $1.62.

Lesson: Be truthful to the public, publicise your recalls fervently, and see such moves as invaluable marketing opportunities!

MERCK'S RECALL OF ARTHRITIS DRUG VIOXX IN 2004

Within five years of receiving the FDA approval, Merck recalled the Vioxx drug, which had earned it revenues totalling $2.3 billion in 2003. The drug was known to double the risk of sudden cardiac attacks leading to deaths than those who took Celebrex (Vioxx's main rival). FDA researcher David Graham, who was the lead scientist testing the dangerous side effects of the drug, after an analysis of a database of 1.4 million patients proved that same year that Vioxx had led to more than 27,000 sudden cardiac-arrest related deaths in US, since it was launched in 1999. On September 30, 2004, Merck was forced to recall the blockbuster drug.

When news of this reached the bourses, the stock plunged 26.77% on that fateful Thursday, stripping-off $28 billion of shareholder wealth, leaving Merck's m-cap battered at $75.41 billion. Three years later, the stock was

at a historical high and its m-cap had climbed to $134.22 billion! And for the record, Merck's revenues for FY2004 rose by an unexpected 2.01% to touch $22.94 billion, with net profits touching $5.81 billion. And these figures have been rising steadily since then. For FY2009, Merck's revenues touched an all time high of $27.43 billion, with a record of profit margin of $12.90 billion (and all this despite having paid up upto $4.1 billion to settle about 50,000 liability lawsuits in the past five years).

Lesson: Disbelieve critics who claim that one blockbuster drug recall will kill your future – bet on the long run and advertise well during the product recall; it'll increase your brand recall too.

MATTEL'S RECALL OF 20 MILLION TOYS IN 2007

In what is by far the largest recall in the history of toy-making, Mattel's recall of 20 million toys in a span of just two weeks surprised many families who had trusted brands like Barbie, Hot Wheels, He-Man, Dora the Explorer and Elmo for years. The first lot was a recall of 1.5 million units on August 1, 2007, which was followed up with an 18.2 million units recall on August 14, 2007.

Reason: the extremely harmful toxic lead paint that was used on the toys. So, did it lead to what we call shareholder wealth erosion? Actually, no! In the trading session that followed the first announcement, the Mattel stock gained 1.62% on the NYSE. Similarly, the stock gained 1.83% in the second instance. And if financial performance is some justification, here is one shining example – for FY2007, Mattel recorded a 5.66% increase in revenues to touch $5.97 billion and a 1.2% increase in bottomline

THREE YEARS POST MERCK'S VIOXX RECALL, THE STOCK HAD REACHED A HISTORICAL HIGH AND M-CAP CLIMBED UP TO $134.22 BILLION

that touched the $600 million mark for the first time ever!

Talking about the recall, Prof. John A. Quelch, Lincoln Filene Professor of Business Administration at Harvard Business School, praised Mattel to no ends in his August 2007 paper titled, 'Mattel: Getting a Toy Recall Right'. "Mattel deserves praise for stepping up to its responsibilities as the leading brand in the toy industry. The CEO has taken personal charge of the situation. The CEO knows that Mattel's brand trust – built up over 62 years – is at stake. Mattel is effectively getting the word out about the recall. Mattel's recall Web site is a model of excellence," he wrote.

There are many other product recalls that you can perhaps recollect. Why is it that despite Coca-Cola recalling 30 million cans and bottles of Coca Cola in Europe in 1999 and 2000, it still entered the first ever global valuation ranking by Interbrand a year later on the "number one" spot, a position it holds till date? Why is it that despite tens of thousands of battery recalls by IBM in 2005, 2006 and 2009, it still ends up as being the second most valued brand in the world as per the InterBrand Survey 2011, a brand valued at $69.9 billion with an m-cap of $223.02 billion (November 16, 2011)? Why is it that Microsoft, despite the Xbox recall fiasco in 2007, is still is the third most valued brand at $59.08 billion, and bears an m-cap of $226.12 billion (November 16, 2011)?

Truth is – product recalls actually work to build consumer and investor confidence in the long run if the company handles it "positively" and acts in favour of the shareholders. It's also true that simply recalling your faulty product is not a guarantee for future success – as competitive leadership in a cutthroat market can be obtained by well defined strategic plans. But it is an undeniable fact that a significantly larger number of product recalling companies seem to be coming out better off than companies that have been more or less non-controversial.

So does this mean we're recommending that you should simply start recalling your products, irrespective of whether or not they're faulty? Obviously not... But then again, why not?

8
SERVICES VERSUS MANUFACTURING

"SHOULD YOU OPEN UP A MASSAGE PARLOUR?"

Should you? Actually, our question is – do service businesses perform better than manufacturing businesses? Of course, various 'production experts' have spoken gloatingly on how the Chinese boom has occurred solely and wholly based on the 'manufacturing miracle' and how services can only be an 'add-on' to any country's growth, and nothing more. But we were still curious about what the scenario was across the world...

It was called the Baumol's disease; the tendency of service industries to always have lower productivity than manufacturing, as shown explicitly in the US economy for decades. It took a path-breaking official report by

"FIVE OF THE TOP SEVEN INDUSTRIES THAT HAVE LED PRODUCTIVITY GROWTH IN THE PERIOD OF 2000-2006 ARE SERVICE INDUSTRIES," HBS PAPER

the Federal Reserve Bank of Dallas in December 2004 to prove that miraculously, across American industries, services have in fact "been performing better in the current business cycle!" Harvard Business School worked up the service heat in May 2006 in the paper, How Important Is The 'Service Sector Effect' On Productivity?, by showing that "five of the top seven industries that have led productivity growth in the period of 2000-2006 are service industries..."

Dr. Michael A. Cusumano of MIT Sloan School of Management proved (through his world-class 2006 report, 'Products vs. Services, Which Is The Better Business Model...') that service is, of course, the best business model! Think about it, Fortune shows how in the 2011 Fortune 500 list, 8 out of the top 10 companies providing the maximum revenue per dollar of equity are service companies (or not pure play manufacturing companies); six of the top 10 profitable companies are service companies (2 more are oil giants Exxon Mobil and Chevron); 5 out of the top 10 highest shareholder value providing companies over the last five years are service based! Clearly, the service sector is as good as the manufacturing sector, and in many performance criteria, much better.

If it were a question about employment, then digest this. As stupendously shown by authors Baily (Chairman, Council of Economic Advisors) & Farrell (Director,

McKinsey Global Institute) in the 2006 report, Breaking Down Barriers To Growth, during the past decade, service industries have been responsible for "all net job creation" across the globe while "roughly 22 million manufacturing jobs disappeared worldwide between 1995 and 2002." In OECD countries, a huge 70% employment is being generated by service industries. A gargantuan 68% of Japanese GDP comes from services.

OECD National Accounting Data shows how in European Union, services form a whopping 74% of value added GDP and account for 74% of all employment. Let's yank the pants off yankeeland too – a gut wrenching 82% of the 140 million American workforce is employed in the services sector, contributing 70% to the mammoth US GDP, with manufacturing is down to a puny 14% (consider this – 200 years ago, over 90% of US workforce was in agriculture; now, less than 1.5%; Federal Reserve Bank data). And if China was your pet manufacturing peeve, here's the real dope devastating their production argument. During the key turn of the century, when China started gaining supremacy globally, more than 15 million manufacturing jobs were lost in China from 1995 to 2002. Economist 2006 research showed how 93% of the thunderous Chinese GDP increase is occurring because of purely service industries. But the most mind boggling is the electrifying fact that the Chinese service sector (with 43% share in GDP) has almost but taken over manufacturing's share (around 46.9% of GDP) in 2010.

Scott McNealy, the former power CEO of Sun Microsystems, famously commented, "Services will be

the graveyard for old tech companies...” Believe it or not, 75% revenues of a world class ‘product’ company like IBM comes from ‘services’! For Oracle, SAP, i2 and other top behemoths, the percentages range between 65% to 90%! All this irrefutable research proves how ‘service’ businesses are obviously thunderous miles better off choices than manufacturing ones. Fortunately for us, statistics are on our side...

Now go ahead and open up that massage parlour... Strike the last sentence... We’ll open it ourselves.

9
SBUS

SHOULD SBUS WITHIN A COMPANY HANDLING SIMILAR BUSINESS AREAS BE COMBINED? OR SHOULD THEY BE ALLOWED TO COMPETE WITH EACH OTHER?

Every CEO worth his hyper-stressed salt knows that the term 'SBU' means 'Strategic Business Unit', a most popular concept where a division of a corporation, unlike previously, is given total independence! In fact, across Fortune 500 corporations, from GE to Nestle, from Microsoft to Toyota, from Citibank to BP, the SBU concept has perhaps been 'the' most important factor responsible for radically redefining visionary growth; and all that with the straightforward hypothesis of decentralisation of authority and responsibility. At the

"INTRA-FIRM COMPETITION STRUCTURES SHOULD BE DONE AWAY WITH WHEN SBUS BECOME LARGE," LBS STUDY

same time, the importance of ensuring high internal competition between SBUs has been historically ingrained into management thought. And more so, when the question comes of organizations that have multiple SBUs handling the same businesses but competing against each other for a common customer base.

But wait! Hand in glove with this 'internal competition' philosophy has been the ever present contemporary CEO viewpoint that while these 'same business' SBUs are young (with respect to size, years of experience etc), they should act as one unit reaping all the benefits of synergy rather than compete against each other as that would ensure optimal allocation of resources. And when these SBUs become relatively large on the same parameters, they should be let free to behave like two (or more) independent companies competing against each other without giving consideration to the fact that they belong to the same company. And there lies the critical context of this chapter. However logical it might seem to be, is it really true that 'same business' SBUs, when young, perform better in coordination with their sibling SBUs, and when bigger, perform better competing tooth & nail with each other? Or should it actually be the opposite?

Of astounding surprise is the fact that till the turn of this century, there was practically no research that quantitatively calculated which synergy model of the above two was more appropriate. Truly, BCG's

exemplar Mark Sirower, author of the world famous document, 'The Synergy Trap'..., did note, "It is next to impossible to complete a truly sophisticated financial analysis of synergy potential." Therefore, to say that the benchmark report titled 'An Evolutionary Theory of Intra-organisational Competition' by London Business School Professors Birkinshaw and Lingblad defined the pillars of understanding such structures is surely a huge understatement. The authors, while accepting the lack of past research, go against all past thought to impressively prove that intra-organisational competition should be in effect introduced when 'same-business' SBUs are evolving (or growing) but surely only as a "temporary organisational structure" and should be done away with over time as "these forces are powerful... (and can) destroy more than they create." That means that over time, when 'same-business' SBUs have gained competence over the uncertainties of the market place, they should actually start operating as one! Promisingly, a growing number of findings across the globe is now supporting this management philosophy.

After undertaking a massive research over various sectors, Booz Allen Hamilton, in the topline thesis 'The Centreless Corporation', showed how in large global corporations, such a traditional SBU "command-and-control model of senior management takes a toll on corporate competitiveness by destroying value!" In a very closely connected finding, the most famous May 2006 joint project of Rutgers University, Fordham University and Tsukuba University factually vindicated the finding that instead of having divisions not acting in

"LARGE SBUS SERVICING SIMILAR MARKETS SHOULD BE CENTRALISED," JOHN HOPKINS/ CLEVELAND STATE UNIVERSITY

unison as large organisations grow, "when the environment becomes more complex, the firm needs to centralise its decision making..." Even the John Hopkins University and Cleveland State University retail sector survey 'Centralisation vs. Decentralisation In A Multi-unit Organisation', which analyses the phenomenal success of firms like Wal-Mart, proves how large business units servicing similar customer markets should be 'centralised' to enhance firm performance.

In fact, deriving beyond the previously mentioned LBS report, the same philosophy applies brilliantly even to employees, where 'young inexperienced' employees should be made to compete with each other, while 'hugely experienced' personnel should be made to act as cohesive single units with each other, rather than vice versa.

For a more comprehensive understanding of how SBUs (or rather Meta-SBUs) can be developed and a workable model to nurture such Meta-SBUs within a transnational organisation, see the Epilogue chapter on Meta-SBUs.

Read the epilogue in this book on Meta-SBUs, a radical philosophy that should be read along with lessons read within this chapter.

10
GOING PUBLIC & PRIVATE EQUITY

ISN'T THAT A 'PUBLIC' DISGRACE?

"Guys, we're going public!" Imagine hearing the glorious CEO of a top notch private firm announcing this war-cry victory statement to his esteemed board of directors. A time to rejoice and bring out the champagne barrels, right? And why not, isn't going public one of the proudest moments in the lifetime of a CEO and a firm? For, aren't public and largely held companies better performing than private or closely held ones? We have just two words to describe the attitude of bombastic CEOs in love with this theory of going public: Preposterously irresponsible!

Of course, being private gives greater power to CEOs. The Economist, in a 2003 primer research, showed

THE US GOVERNMENT REPORTS THAT PRIVATE BUSINESSES WITH FEWER THAN 500 EMPLOYEES ACCOUNT FOR 51% OF US GDP

how CEOs in "private firms have greater control and face less tiresome scrutiny." Worryingly, public companies – because of a larger number of shareholders who interfere in corporate decisions – are not only less efficient, but also end up risking their business growth model over a longer period of time. The 2004 University of Michigan study (Entrepreneur's Choice... Private and Public Ownership) started the whole debate where the authors empirically argued that public ownership was clearly disadvantageous for firms (because of public shareholders taking away management autonomy).

Noted takeover specialist David Arculus famously drove home the point that being private is "the purest form of capitalism; it tests your mettle and drives you to superior performance." But then, don't private companies earn less, grow less, and contribute less to GDP than public companies? One look at the Forbes list of top 500 US private firms (earning $1.25 trillion in 2006; and contributing almost 10% to US GDP) is enough to put paid to that viewpoint. Over 394 private companies in that list have revenues exceeding $1 billion. If that was hitting, digest this – the US government reports that private businesses with fewer than 500 employees accounted for 51% of US GDP (for that matter, it's also a stunning revelation that over 90% of registered businesses in UK are private). And if it were then a question of revenue growth, just two years before recession began, the fact

again is that in 2006, while the Fortune 500 group of public companies actually grew by a sluggish 4.42%, the Forbes 500 list of top US private firms grew by a classy 17.25%!

But it was the June 2006 statistical study (Publicly Traded vs. Privately Held Firms) of 5 million US public and private firm records jointly undertaken by the National Bureau of Economic Research and University of Chicago that comprehensively proved that while, for public companies, the business-growth volatility dangerously rose, for private companies, the same encouragingly showed a sharp decline towards more stable growth, and resulted in "a period of impressive productivity gains for the US economy."

A factuality vindicated even by the London Business School study (Earnings Quality in UK Private Firms), which enumerated quantitatively that "by many measures, private companies have greater economic significance than public companies... The net income for public firms is negatively skewed, but for private firms is positively skewed." Even in other industries, the results are the same. For example, a Federal Reserve Bank dissertation, Risk and Return of Publicly Held vs Privately Owned Banks, demonstrates how publicly owned banks are "on an average less profitable than privately held banks."

So then why do CEOs wish to go public? That's simple: in search of capital. Unfortunately, unlettered CEOs also end up ensuring that the top management loses voting powers too, which is where outsiders start interfering illogically with the firm's strategic decisions. Then where's the solution? How can a CEO procure money from the

'public', at the same time keep the firm 'private' by not giving up voting rights of the original board?

SUPER-VOTING RIGHTS

The answer lies in a radical concept called super-voting rights, which now allows extremely shrewd CEOs to issue newer shares with negligible or zero voting rights. A March 2007 report by the Economist shows how such a dual-class voting structure, on an average, is good for shareholders: "The share price of these companies outperformed comparable firms with single-class shares!"

The January 2007 Credit Suisse Europe study undeniably proves the same. Interestingly, while Sergey Brin and Larry Page hold only around 20% of Google's shares, they have close to 60% voting power. In News Corp, Murdoch's family owns about 30% of stock, and retains 100% of voting power. In Viacom, the figure is 9% of shares commanding 100% of voting power. The Ford family owns 3.7% shares, but commands 40% voting rights. Given this trend, will we see a day when people with 0% shareholding interest control 100% decision making? Oh! We forgot! Haven't our lovely Indian politicians already reached that level of governance?

If it's inevitable that a CEO has to go to the public for equity, then we provide an alternative. Even before attempting to go public, we recommend that the CEO approaches private equity investors. And why? Read ahead.

THE 'PRIVATE EQUITY' ISSUES

Does private equity fund investment help or actually destroy the performance of firms? Don't private equity investors, who end up holding significant share holding within the company, interfere much more in the CEO's and top management's decisions than would have external banks or general public investors? As we studied in one of the previous chapters, promoter-owned private companies are much better run and operationally more sound than publicly-held companies; but what about private equity from non-promoters? Wouldn't that end up being a worse bargain?

A 2006 Wharton seminar on Private Equity showed how private equity investment for shareholders seemed to be more efficient than the normal stock markets... and even loans! The seminar summary quoted Warren Buffet, "Borrowed money is the most common way that smart guys go broke!"

While The Economist magazine described private equity firms as the "sharp edge" of contemporary capitalism (a recent Economist research even concluded that "in an odd twist, all the money going to private equity has helped buoy shares of public companies!"), Bloomberg's Venture Economic report shows that over a period of 10 to 20 years, private equity has outperformed the markets by a thumping 66% to even more than 100% in some cases! The National Bureau of Economic Research, in their paper titled, 'The Cash Flow, Return and Risk Characteristics of Private Equity', resoundingly proved how private equity always generates "excess returns" relative to ordinary equity markets. Very interestingly, Mercer came out with its 2007 private equity study that

"PRIVATE EQUITY HAS OUTPERFORMED THE MARKETS BY 66% TO EVEN MORE THAN 100% IN SOME CASES," BLOOMBERG'S VENTURE ECONOMIC REPORT

confirmed, "Not only has the rate of return for PE firms overall been substantially greater than that of public corporations, but such companies – once returned to public ownership – have outperformed the market as a whole."

Even Kirti Timmanagoudar, Director, Business & Financial Services, Frost & Sullivan, in a column on PE (titled, 'With Better Regulation, PE can be key to Growth') that she wrote in the April 2011 issue of Business & Economy magazine echoed our viewpoint. She wrote, "Private equity participation brings in professionalism to the company and often results in higher valuation of a company. One of the persistent problems found in the small and mid-sized companies is that of non-transparent accounting and audit controls. We often see the same auditor accounting the firm's accounts and the promoter's personal account. But the entry of a PE firm brings in the much needed quality of corporate governance and improved controls. This professionalism coupled with the restructuring brought in by the PE firms often result in a higher valuation of the company."

In fact, the case for private equity funding has remained strong throughout the world's top economies. While US and UK, according to the European Venture Capital Association data, had the "broadest and most developed private equity markets in the world (ranked at number 1

and 2)," such private equity had actually led to dramatic innovation and stunning economic growth too!

Look at the situation in India over the post few years. The Economist Intelligence Unit's 2005-06 worldwide survey rates India second from bottom in terms of promoting environment for private equity. The famed Apax Partners, in 2007, in their yearly survey, Future Trends in Private Equity Investment Worldwide, statistically confirm the same with the cherry statement, "India has the second worst environment for private equity!" The survey, in fact, rated India last in all countries surveyed in the factor of 'Market Opportunities' (for Private Equity), an honour India could well do without!

The 2011 Global Venture Capital and Private Equity Country Attractiveness Index, by IESE Business School and Ernst and Young, ranks India at a lowly 30th position globally, below countries like Malaysia, Chile etc. Between 2007 and 2011, India has fallen down four ranks; and the fault lies completely with the government. The index report notes, "We note that India's loss of four ranking positions is caused by a deterioration of perceived investor protection and lower scores in doing business indicators."

There's only one common factor slowing down corporate growth, a factor that keeps coming out throughout our various chapters – and that's the lack of supportive policies. One hopes that the Indian policy makers spruce up their acts; it's the now-or-never moment, given the kind of economic issues the nation is currently suffering.

11
M&AS

MURDERS & ACQUISITIONS

Do M&As destroy value? Corporate research teaches well; and in one word, the answer is: “Yes!”

Mergers – used as an inorganic growth strategy – rarely work. And the faster managers realise that, the better! The authoritative IBM Global CEO study 2009, titled ‘The Enterprise of the Future’, after interviewing more than 1,130 CEOs globally, reports that a smashing 67% of the CEOs voted for growth through “organic” routes, with another 81% voting for “partnering extensively,” rather than M&As. In another 2009 survey finding from Deloitte Consulting’s CEO Survey, ‘Now is the time when winners stand out’, four out of five CEOs surveyed voted in favour of organic growth being the path to their

"ONLY 6% OF CEOS THINK THAT M&AS CURRENTLY OFFER MUCH POTENTIAL FOR GROWTH," PWC ANNUAL GLOBAL CEO SURVEY

companies' future growth, with just a paltry 16% voting in favour of M&As.

There seems to be increase in the number of those whose blindfolded faith in the power of M&As is rightly being wiped out, with the dose coming from PricewaterhouseCoopers in the name of its 12th Annual Global CEO Survey 2009, which states how "only 6% of CEOs think that M&As currently offer much potential for growth." In a column that Prof. Arthur A. Daemmrich of Harvard Business School wrote in the August 2010 Issue of Business & Economy magazine (a Planman Media publication), on M&A & JVs (titled, 'M&As and JVs as tools for organic growth'), he states that "M&As and JVs are fraught with points of failure. In recent studies, economists have found that mergers are often based on faulty evaluation of assets, especially intellectual assets, leading to long-term decline in shareholders returns."

In another article titled, 'Should we brace ourselves for another era of M&A value destruction', written by Prof. James L. Heskett of HBS, featured in Business & Economy magazine in August 2011, the author states conclusively that, "In the end, M&A is about buying more volume. It is a flawed process, invented by brokers, lawyers, and super-sized, ego-based CEOs. Acquisitions are a macho exercise, not an intellectual one. Think World Wrestling Federation, not a chess tournament. Those promoting an acquisition are often dealmakers whose interest in the

transaction often stops when the deal is closed. Only in certain circles, such as family... where both parties sincerely want the good of the other and are not motivated by greed, can there be deals in which neither of the two loses. There are conflicting conclusions about whether mergers and acquisitions contribute directly to long-term value for the surviving organization. What is generally agreed upon is that perhaps as many as two-thirds of all acquirers fail to achieve the benefits planned at the outset of an acquisition. In part, this is thought to be due to the fact that too many acquirers are more concerned about size and top-line growth than value creation. Others approach an acquisition like a conquering hoard, focusing on the numbers while remaining insensitive to the qualities and needs of the human resources being acquired."

The 2010 NYSE Euro next CEO Report titled 'The Road to Recovery' proves empirically that today, the percentage of CEOs who believe that "M&As, as an external factor, will impact the company's overall growth through calendar year 2010", has fallen by 16%, as compared to the figure three years back. In fact, 76% of the CEOs surveyed confirmed how M&A market opportunities are "not exceptional" through 2010. In a classic M&A global research report furnished by KPMG, all optimism regarding M&As is buried deep: "53% M&As had actually destroyed [shareholder] value, and 83% of mergers were unsuccessful in producing any benefit to shareholders..." The IABC Research Foundation report, 'How Communication Drives Merger Success' interestingly combines different studies over a period

of two decades – conducted by McKinsey & Co., A.T. Kearny, Business Week and Fortune – and concludes, "A majority of today's mergers will fail. 1/3rd will be sold within 5 years, 90% will fail to live up to financial expectations, 50% will destroy shareholders' wealth, 60% will see their stock price fall behind peers" within 2 years, and 2/3rd could have earned more simply by putting their money into certificates of deposits!

To put all heavy-duty research aside, let us give you a very interesting piece of information that may set your think tank rolling. During the year 2006, when sentiments in the global economy were on an extreme high (a year when even India Inc. saw its biggest billion dollar deals ever!), the top seven names on Dealogic's M&A dealmakers list were Citigroup (having spend a continental $296.28 billion on 51 deals during the year alone), Goldman Sachs (spent $296.26 on 70 M&A deals), JP Morgan ($271.93 on 96 deals), Lehman Brothers ($255.57 on 47 deals), Merrill Lynch ($227.90 on 67 deals), UBS ($204.83 on 85 deals) and Morgan Stanley ($184.06 billion on 56 deals).

Strangely, the amount of money they spent on deals only increased their respective debt loads and weighed heavy on to their portfolio of non-performing assets. Just two years later, the largest of the M&A dealmakers, Citigroup returned losses amounting to $99 billion in 2008 – the highest ever for any company in the history of capitalism!

A study by the University of Exeter's new Centre for Finance and Investment also revealed how in the five years post-deal, the ROI for merged entities underperformed by an average of 26%, compared with shares in companies

of similar size that did not take part in M&As. Then there are more researches backing the burn out effect of M&As, as the Centrix Consulting report proves: "The proportion of takeovers that end up damaging the acquiring company's shareholders ranges from 50% to 80%, depending on whose research is read." This figure, according to Harvard Business School's Prof. Stephen Kaufman is actually worse; and this is precisely how Daniel W. Rasmus, Director of Business Insights, Microsoft Corporation quotes him in his 2009 report titled 'Working in a blended world': "Between 65 percent and 80 percent of M&As destroy shareholder value, rather than enhance it."

"90% OF M&AS WILL FAIL TO LIVE UP TO FINANCIAL EXPECTATIONS," IBAC RESEARCH FOUNDATION REPORT

Explaining the reasons for failures, the white paper by Professors Ulrich Steger and Christopher Kummer of IMD Lausanne, titled, 'Why M&A Waves Reoccur – The Vicious Circle from Pressure to Failure' elaborates, "Synergies [of functioning together] are frequently overestimated – they look good on paper but are not realised…" Prof. Pablo De Holan of Incae Business School (Costa Rica) in a column on M&As (titled, 'The Difficult game of M&As: A Practitioner's view') contributed to the August 2011 issue of Business & Economy magazine agreeingly states that, "M&As are seen as a remedy to a bad strategic position rather than a way to consolidate it. This is particularly detrimental to firms because in M&A, as in many other situations in life, one can buy only what is up for sale or pay a huge

premium to convince someone to sell something he was not willing to sell, increasing the risk of overpaying for the acquisition." In another eye-opener of a work titled, 'A Modern Hype called Mergers & Acquisitions,' featured in Business & Economy magazine in August 2011, Prof. Bill Kaufmann, Faculty of M&A Integration, College of William & Mary's Mason School of Business and at SMU COX School of Business wrote, "You can name a hundred reasons why M&As don't or cannot work. I can name some going by what I have seen in first person. Here they are: (1) Inadequate due diligence: When too much emphasis is on the numbers and not other factors. One example is that of cultural synergy. Often you would find that in M&As which have failed, the acquirers have failed to integrate the cultures of the two companies.

"Daimler Chrysler was a good example of this. Conflicting corporate cultures is perhaps the most destructive of all the reasons why two companies don't 'fit'; (2) Lack of a compelling strategic rationale: The key word is compelling. As I mentioned before, some companies go ahead for an acquisition or a merger even if they find no real strategic sense in the deal. This is not right; (3) Unrealistic expectations of synergies: Top management oversells the value of the combination. And the acquiring firm ends up paying too high a premium, often much more than can be achieved through various synergies. Paying too much is a problem, and this happens especially when there is a bidding war between two egos; and (4) Failure to move quickly enough to meld the two companies: This creates uncertainty in the workforce."

Having said that, we would put forward the proposition

that M&As are not growth strategies but survival strategies – meant for drowning entities, who latch on to each other to live another day. That means that during the times of economic slowdown, M&As should have increased, especially in the companies floundering to survive. Unfortunately, the corporate world remained blinded and in fact reduced the number of M&As during this period. According to a January 2010 Global M&A Report by data monitor ZEPHYR, the value of global M&A declined by 15% to $3.62 trillion in 2009 (from $4.24 trillion in FY2008 and $5.61 billion in FY2007). The number of deals reduced to 64,981 in 2009 from 66,472 in 2008. Private equity deals declined in every outlined region by both volume and value.

Even in India, total value of M&A deals announced in 2009 was $21.20 billion against $41.54 billion in 2008, according to Grant Thornton's Deal Tracker report 2010 – a drop of 49.01%. There were 488 deals in 2009 as against 766 a year back. While on one hand, domestic M&A volumes dipped to 142 from 172 last year, outbound M&A was down at 64 (as against 196 last year) while inbound M&A fell to 61 (as against 86 last year). But brilliantly, the Towers Perrin 2009 report titled, 'M&A in the post-Lehman world' proves our conjecture by stating, "Companies that completed M&As since the beginning of the downturn are outperforming their non M&A peers by 6.3% globally."

Dionysius Exiguus initiated the BC & AD dating systems. For the contemporary mergers world, there's one such Exiguus – and he's called Warren Buffett, who in 1981 had narrated the momentous constitution regarding

"UP TO 80% OF TAKEOVERS END UP DAMAGING THE ACQUIRING COMPANY'S SHAREHOLDERS," CENTRIX CONSULTING REPORT

the futility of M&As, when he said, "Many top managers apparently were overexposed in impressionable childhood years to the story in which the imprisoned handsome prince is released from a toad's body by a kiss from a beautiful princess... We've observed many kisses but very few miracles!"

Even the famed McKinsey & Co., once a fanatic supporter of M&As, had to accept after its M&A research through the 90s that in the US & UK, only one quarter of all M&As ever recovered the costs of the merger. Their November 2001 hallmark paper ('Why Mergers Fail') stated prophetically, "The belief that mergers drive revenue growth could be a myth!" In that paper, McKinsey showed how a massive 78% of companies failed to manage significant growth over a period of three years post the M&A! Professors Weber and Camerer of Carnegie Mellon University, in April 2003, statistically showed in their benchmark thesis ('Merger Failure: An Experimental Approach'), that "a majority of corporate mergers fail!"

The Economist reported in 1999, "Study after study of past merger waves has shown that 2/3rd of all deals have not worked!" CEO Magazine reported similarly, "75% of M&As are disappointing or outright failures!" The Economist Intelligence Unit's briefing (Corporate Priorities For 2007) goes better! When more than 1000 global CEOs were asked, "Which forces will have the

greatest impact on the global marketplace in the coming three years?", they ranked 'M&A activity' sixth from the bottom! Most hilariously, below this, were factors like 'Catastrophic events (eg. terrorism, natural disasters)', 'Advances in back office technologies', and of course, 'Others'.

BCG's sparkling July 2007 report, 'The Brave New World of M&As', documents, "Larger deals destroy progressively more value! Deals that are above $1 billion destroy nearly twice as much value as those under $1 billion!" The hugely referenced Business Strategy Review's 2005 paper ('Merging on the Miraculous') had the first line, "More than 2/3rd M&As fail to create meaningful shareholder value."

The Gartner/Forbes Executive Survey of February 2007 asked top global executives to rank various business issues. 'Managing M&As' came last on the 25 factor list! Factors like 'Attracting and retaining skilled workers', 'attracting new customers', 'Increasing market share' etc were ranked miles above M&As!

Wharton, Stanford, Booz Allen, Accenture, MIT, you name it and they have research discrediting the strategy of M&A. Factually, for every successful Tata Steel-Corus acquisition, there are 3 failed Time-AOL-Warners.

Murders & Acquisitions is how we'll address M&As. Given a choice, never opt for M&As as a growth strategy – choose the organic route over the M&A inorganic route. M&As should only be chosen as a last resort when both the acquiring and the acquirer are fighting for survival.

There's a brilliant piece of research, which we share with you dear CEOs... SARS, the deadly virus, has a

fatality rate of 15%; Typhoid – 10%; Severe malaria – 9%; Dengue – 3%; M&A – 75%! Ouch!

IF YOU HAVE NO OTHER CHOICE THAN TO ACQUIRE, HOW MUCH PERCENTAGE OF EQUITY SHOULD YOU ACQUIRE IN THE TARGET COMPANY?

This is a classic b-school case study on strategy. Let's see if you get it right the first time! You're the CEO of a most enterprising publicly listed new age corporation operating in the third world, having opulently healthy free-cash reserves of $12 billion. Your background is sparkling, with excellent management practices. And now, your corporation wishes to complement its expertise with venturesome first world customer spaces that, unfortunately, are placed in industrious countries that are geographically too distant. You realise that to start a new business in these countries would take an unreasonably long amount of time; and the best strategic move would be to takeover control of an established corporation. Your strategic action planning group provides you details of the most attractive takeover target – a spankingly efficient publicly listed behemoth, with a much promising future, with nil hidden costs, having an acquiescing management that displays no hostility, and one whose 100% publicly held shareholder equity can be taken over, with premium, for exactly $12 billion. The question: what percentage of the corporation's equity should you takeover, in case you wish to have "complete authority and control" over almost "all the general management decisions"?

Any sane CEO would confirm the fact that even

"78% OF COMPANIES STUDIED FAILED TO MANAGE SIGNIFICANT GROWTH 3 YEARS POST M&A," MCKINSEY STUDY, 'WHY MERGERS FAIL'

according to basic accounting books taught in high school, for 'owning' an unquestioned control of a fairly publicly listed corporation, one needs to takeover only 51% (or any amount over 50%) of the target corporation's shares. But 100%? The answer is a huge negative. Blunderingly, in a significantly large number of cases, maladroit CEOs of many leading corporations in India have gone ahead moonstruck and completed deals fatuously taking over equity stakes of 100% or so!

But now, even acquiring 51% is considered a spectacularly unhinged takeover strategy. The reason? All important management decisions of publicly listed corporations are undertaken in Annual General Meetings (AGMs); which means that, the shareholding entity, which controls the majority of voting rights in the AGM out of "all those shareholders who are present," is the entity that can run the corporation according to its whims and fancies! Ergo, instead of 51%, a majestic strategy would be to take over just that percentage of shares, that would be enough to provide a working voting AGM majority!

The US Conference Board 2005 report confirms how quantitatively, "the most important shareholders are (almost) always absent from AGMs." Out of the many hilarious examples, there is the ludicrous case of how US' 4th largest corporation (for FY 2010), the Fortune 500 oil giant BP's AGM "sees only 1000 shareholders out

BILL FORD, WALTON FAMILY, AGNELLI FAMILY, ELLISON, ALL HOLD MINORITY SHARES YET CONTROL THEIR FIRMS THROUGH AGMS

of a 650,000 shareholder base" every year. Americas, Europe, Asia... the situation is dismally similar.

Cambridge University's paper on 'Attendance of Shareholders: An Empirical Assessment...' shows the best-off case of Belgium from 1994 to 2004, where, while it was claimed that a high 57.2% of shares on average were represented at AGMs (meaning, that owning just around 30% shares would give one "51%" majority in any AGM on an average). The paper also found out most amusingly that the average number of shareholders attending AGMs was a puny 38 (not 38% but 38 in number)! Germany had just 39.8% of share capital being represented (DSW AGM Season 2005 Research); Australia's top 200 corporations had less than 200 shareholders (Business Council of Australia 2006 report); Singapore is similarly placed ('AGMs, A Waste of Time', Lee Su Shyan, Strait Times); and India is not far behind either. Contrasting the mega billion 100% takeover of Corus by Tata Steel ($12.1 billion), and Kumaramangalam Birla's 100% takeover of Novelis ($6 billion), is the fact that Bill Ford runs Ford Motors with just 0.3% of shares owned – though the Ford family still owns about 40% (and not even 51%) of the firm. Sam Walton's family owns a similarly less 38% of Wal-Mart; the founding Agnelli family owns only around 30% of Fiat; the Marriot family owns around 12% of Marriott International; Michael Dell rewrites it further, with just

10% of Dell; SAP cofounders own 35% of SAP; Larry Ellison owns 23% of Oracle; and the list goes on! For the world's leading CEOs, 10-40% is the new 51%. And for India's greatest, 100-100%!

Lesson: Whenever one wishes to acquire a target company, undertake a research of the past few years' AGMs of the target company and find out, on an average (use a statistical moving trend analysis), what has been the strength of shareholding that has been represented in these AGMs. If the average strength in terms of shareholding is x%, you'll need to acquire any minimal amount greater than x% to acquire the target! This'll allow you power to pass any resolution in any AGM of the target corporation – thus ensuring that you control the company virtually 100% and yet save money in the acquisition process.

12
SHAREHOLDER WEALTH MAXIMISATION

WHAT SHOULD BE A CEO'S PRIMARY OBJECTIVE, GREATER THAN ALL OTHER OBJECTIVES?

Well, how would you feel when you see the obscenely fast growing wealth of so many entrepreneurs and shareholders all around you, and at the same time the growing gap between their incomes and the remunerations doled out to their own employees? Aren't the various innumerable arguments of governments and social organisations really logical when they say that CEOs, instead of fanatically focusing on increasing the wealth of shareholders, should be forced to work towards other 'social' objectives and even towards sharing their profits 'evenly' with at least their own employees, if not with

"THE SOLE DUTY OF CORPORATE MANAGERS IS TO MAXIMIZE THEIR SHAREHOLDERS' WEALTH," STEPHEN BAINBRIDGE, NYU

society?

We found out a sweet word that encapsulates all such anti-wealth banter – Rubbish! Perhaps it took the genius of Dr. William F. Sharpe, a Stanford professor now, to put across in his historical paper Production, Consumption and Market Clearing, how for an equity driven firm, the management's primary objective is clearly "shareholders' wealth maximization."

The inimitable Dr. Stephen Bainbridge of Stern School of Business, New York University, supported that concept with harder research to prove across industries that the sole duty of corporate managers is to maximize their shareholders' wealth. Theorists, academicians, true intellectuals et al have never drawn away from the supreme importance of allowing owners to earn as much money as they can – the primary tenet of capitalism! From Wal-Mart to ExxonMobil, from Apple to RoyalDutchShell, the world's best performing corporations believe fanatically, and supremely correctly, in having the 'primary objective' of maximising their shareholders' wealth.

For those naysayers who throw across the glowing example of companies investing in environment-friendly products, we have this. While speaking in a seminar in 2005 on Global Environmental Challenges in George Washington School of Business, Jeffrey Immelt, CEO and Chairman of General Electric rebuffed all arguments with gumption, "Let's be clear about this. GE's obligation is first and foremost to our shareholders. The GE stock

is the most widely held security in the world. We have some five million shareholders, about 40% of whom are individuals. And we're investing in an environmentally cleaner technology because we believe it will increase... our (shareholders') value." Not that the gentleman has lived up to his promises, has he.

Professor Michael C. Jensen, in the hallmark HBS working paper titled 'Value Maximization & the Corporate Objective Function,' provides iron-hard statistics to prove that even "social welfare is maximized when each firm in an economy maximizes its total market value," in other words, shareholders' wealth. In fact, the same HBS professor, along with Dr. K. Murphy of University of Rochester, coined the critique that CEO compensation should be solely based on how much of owners' wealth have they been able to increase. After an extremely in-depth statistical analysis covering the compensation of 2,505 CEOs in 1,400 publicly held companies over a massive period of 15 years, the professors proved dramatically that unfortunately, "the compensation of top executives is virtually independent of performance," a finding also supported by Dr. Robert Daines of Stanford, the global guru on executive pay.

Critically, it is the undeniable right of owners and entrepreneurs to keep as much share of profits as they so desire, and release as less share of the same to any other entity. Rather than attempting to force entrepreneurs to part with their money, or to label them satanically money-ridden, societies and governments should promote the spirit of entrepreneurship within the populace, espousing the fact that only such a philosophy, once spread out

within society, can promote jobs, incomes, life style improvements, and that too on a massive scale.

Eight out of 10 of the richest people in the world on Forbes' The World's Billionaires 2011 List are self-made, that is, people who've not simply inherited their fortunes, but have developed the same on their entrepreneurship orientation. And of course, a huge majority in this list are from the United States, a country that has fundamentally accepted the entrepreneurship paradigm since ages, a nation with the highest GDP in the world. It is a shame then that to hide their own inefficiencies, many governments across the world in modern times, including India's, have conveniently blamed entrepreneurs and businesses for not supporting social development. Clearly, if anyone has to be burnt at the stake, one doesn't need to look far to decide who...

13

PRODUCT DIFFERENTIATION

SO WHAT'S YOUR DIFFERENTIATION BET?

Many companies commit the mistake of equating 'differentiation' purely with 'providing better quality'. There's much more you can do with this thrilling strategy of differentiation.

Walk into the International Supermarket and Museum in Naples, New York, and you'll learn how to pay your humblest tributes to "failed products". About 60,000 products that failed in US supermarkets find a place in the museum. Hear out their names – Clairol's Touch of Yogurt shampoo, Gerber Products baby food, Captain Cat Cat-Litter Deodorant, Gorilla Balls (a vitamin-rich candy), Yogurt Face and Body Powder, Gimme Cucumber

QUALITY, SERVICE, STYLE, TECHNOLOGY, AND BRAND RECALL ARE THE SURESHOT METHODS TO DIFFERENTIATE YOUR OFFERING

hair conditioner, Soaps for Lovers, Moonshine aftershave, Buffalo Chip chocolate cookies, Batman Crazy foam, Hagar the horrible Cola, Kickapoo Joy Juice, Sudden Soda, and many more.

Actually, how many of them have you heard of? None, because their 'formulae' – as in branding mix – failed to hit home their relative superiority to consumers. They were undifferentiated and therefore undervalued by the "quick to form a perception" consumer market. They were simply "commodities". As Jack Trout writes in his book 'Differentiate or Die': "While categories are expanding thanks to the law of division, something sinister is happening. More and more of these categories are sliding into commoditisation. In other words, fewer and fewer of the brands in these categories are well differentiated. In people's minds, they are there, but that's about all!"

But then, what is differentiation (as opposed to selling the cheapest products – or price leadership)? Differentiation is simply ensuring that your prospective consumers are convinced that your product is superior, relative to competitors. Nobel Prize winning theorists have proven – and we've documented this in the earlier chapter on advertising – that even if your products are in reality 'not' superior, as long as the consumers are convinced about the same, you've done your job!

But then again, what factor do you differentiate on? Obviously quality, right? Wrong! Or rather, not necessarily.

While companies globally make the mistake of equating differentiation with 'providing better quality', the fact is that differentiation can be as successfully attempted on certain other key parameters. Here's a primer with our most loved examples.

DIFFERENTIATOR #1 – SERVICE

Every one who wishes to fly to London wants to be aboard the Virgin Atlantic. Not that it has more comfortable seats, not even that it has better planes and so flies faster; the reason is simple – unlike competitors, it has set itself apart as a brand that delivers superior "service"– 30,000 feet in the air. Little touches prove that – on a Virgin flight, underneath the salt and pepper shakers, modeled on mini-airplanes, you'll find the words "Pinched from Virgin Atlantic." The butter knife is engraved with the words "stainless steal". And there's always a bar in the upper class cabin so that its travellers can chat and socialise.

The airline was the first to really stretch the grade of what is called service in air to the next yard. It was the first to put in seat-back televisions, and serve ice-creams while mid-flight. "We did everything we could to lighten the mood and the experience. Twenty-five years later, the airline retains that very same sense of fun and the true ability to surprise and make people smile," says Sir Richard Branson, Chairman of Virgin Group of companies, who used to write for 4Ps B&M, a Planman Media publication.

In a column on service production marketing (titled, 'Building Trust Through Customer Education') that

Prof. Andreas Elsingerich of Imperial College Business School (London) contributed to the June 2011 Issue of 4Ps Business & Marketing, he explains how efforts to provide customers with the skills and abilities to utilise critical information about services provided, can help firms differentiate their service offerings and provide a foundation on which it can build profitable relations with its customers. "In mature markets characterised by parity products, it is often service quality which sets one firm apart from its rivals. Interestingly, as customer education strengthens customers' understanding of business processes, the technical service quality elements ("what" is delivered) have less of an influence on customers' trust in a business whereas functional service quality elements ("how" a service is delivered) become even more powerful in determining customer trust, our research shows," he says.

And if you've ever heard of a company named Maruti Suzuki, you'll know very well that the world buys some Maruti cars purely on the basis of the geographic expanse of Maruti's service outlets, rather than the design of its cars. That's differentiation for you!

DIFFERENTIATOR #2 – STYLE

For the world, Nokia stands out for quality; truth is, that's not the truth! As per a Gartner study (May 2010), Nokia commands 36.4% of the world's mobile device market share, while its next closest competitor is Samsung at 20.6% and the third is LG, with 8.6% global share. In India, Nokia fares better. As per the most recent ORG survey made public, Nokia rules with 59.5%, Sony

Ericsson comes second with 8.1%, while Samsung is third with 7%. Now here's a shocker – according the 2010 Wireless Traditional Mobile Phone Global Evaluation Study by J.D. Power and Associates, LG was ranked number one by customers in terms of "overall wireless customer satisfaction amongst all traditional handset brands". This is the fifth year that LG has won the crown since 2003. Nokia was #7!

IT DOESN'T MATTER WHETHER YOUR PRODUCT IS REALLY SUPERIOR; IF YOU'VE CONVINCED YOUR CONSUMERS, YOU'VE HIT BULL'S EYE

The secret is, Nokia knows mobile consumers love newer designs, newer models, newer rehashes of the same old 'stuff', and Nokia rules on that differentiation: style! Not that Nokia is necessarily better on even style. But it's ensured that the Daniel Kahneman's Prospect Theory is applied prim and proper – that irrespective of whether Nokia really is better in style, as long as consumers believe the same, Nokia's done its job.

Apple, a name which you often hear being associated with innovation, or technology for that matter is again one clever differentiator. The late Steve Jobs was cleverer. As we've mentioned earlier, his company didn't invent the portable music player, or the first laptop, or even the first smartphone. He only followed, and followed better! His iPod, iMac, iPhone have become best sellers, but were never the ones which innovated technology. Jobs simply gave the products a better appearance, a better interface, a better style. In short he gave it a better overall design. And that's a style differentiator for you. Of course, you and us

kept believing that Apple's the most innovative company. That's clever positioning that Jobs used to combine differentiation on style with another differentiator factor; and this brings us to the third differentiator.

DIFFERENTIATOR #3 – TECHNOLOGY

How many of you know whether Intel chips are faster or AMD? The fact is, AMD Athlon chips have even beaten Intel's comparable chips in lab tests – and vice versa too. But right from the start, Andy Grove, the former Chairman of Intel (who wrote: 'Only the Paranoid Survive') realised that it didn't matter what was true, it mattered what consumers believed.

Through perception building exercises, Grove managed to keep consumers convinced that Intel's processors were technologically faster and superior than those of AMD. Since 1971, it has introduced 662 "unique" versions of the microprocessor; AMD has introduced just 79 versions since 1975! Intel has changed its logo four times; AMD has done it just once. Everyone wonders now whether it's "Intel Inside". How many ask if it's "AMD Inside"? Nobody! For 2009, research firm iSuppli puts Intel's share in the PC market at 80.6% (as opposed to AMD's 12.1%), while IDC research puts Intel's share at 80.5% (as opposed to AMD's 14.4%). Even Fedex differentiated using technology rather than just service, where they were the first ones to provide customers with an online package tracking system.

AND OF COURSE – QUALITY

After the setback caused to the Toyota brand post

8.4 million recalls in the beginning of 2010, none would have given the Japanese auto maker a chance in the 2010 J.D. Power and Associates' Vehicle Dependability Study, which was released in March this year. But Toyota's long-standing belief in quality being a differentiator paid off. The study, after measuring and analysing drivers' experiences after three years of vehicle ownership, gave Toyota the top spot in four segments – more than any other auto brand. While the Toyota Prius topped the list of the Most Dependable Compact, Toyota Sequoia was the Most Dependable Large MUV, Toyota Tundra was the Most Dependable Large Pickup and Toyota Highlander the Most Dependable Midsize MUV. You want to learn what quality differentiation is? Ask Toyota, which manages it despite multi-million recalls.

Remember the most critical lesson in differentiation positioning. It doesn't matter whether your product is really superior in quality or service or style or technology; if the consumer is convinced through your marketing that your product is superior, relax, you've hit bull's eye!

AND IF NOTHING WORKS – BRAND RECALL

What do you do when your product cannot be differentiated on any factor? Then go for the simple and straightforward strategy of brand recall. Bombard the consumer ad nauseum with advertisements. He'll hate you – yet, he'll buy your product. Brand recall is too powerful. Be the Nike, which sells more not because it's superior, but simply because it advertises much more than its counterparts like Adidas, Puma, Reebok, Converse, K-Swiss, Skechers, et al. Be the Procter & Gamble,

WHY WOULD YOU WANT TO KNOW THROUGH A STICKER EVERYDAY THAT THERE'S 'INTEL INSIDE' YOUR LAPTOP? THAT'S SHREWD TECHNOLOGY POSITIONING BY INTEL

Unilever, PepsiCo, Coca-Cola – each spend more than $2 billion each year in advertising – where all you see in their ads are either celebrities or spanking humour (or both) simply trying to ensure that you recall the ad – and consequently the product; irrespective of whether you actually understand the differentiation factors of the product. Or take the Airtel logo you see lying listlessly on the cricket ground in many of the cricket matches telecast on national television. What use can there be of a brand logo being displayed without any associating feature being positioned? A lot, is the answer. That's brand recall; and that's the final lesson here. It's amazing but true that simply making visible your brand to a prospective consumer a few times a day is enough to convince the consumer in an ambient and subconscious manner to buy your product.

Summary: Consumers are not super-humans who will be able to remember a thousand differentiation factors. Consumers are individuals who slot products through perception on four limited factors – quality, service, style and technology. And whether they're able to slot the product in these four factors or not, if they see your brand name and recall the same, they will have a higher probability of buying your products.

14
GOING THE BRUCE LEE WAY

LONG LIVE BRUCE LEE!

Why in heavens would we decide to write about China when everybody around has been harping on China almost day in and out. Because while everybody around has been simply comparing Chinese growth and India's growth (and complimenting China to no ends about it), we find no economic commentator exhorting Indian firms to partake of Chinese growth by thinking about setting up companies in China, or by selling their products and services to Chinese consumers! Each day that passes with you as a CEO not thinking about setting up a business in the world's fastest growing market – and the largest in a few years – is a day lost with criminal intent! The statistics are devastating – if you have even an iota of

EACH DAY THAT PASSES WITH YOU AS A CEO NOT THINKING ABOUT SETTING UP A BUSINESS IN THE WORLD'S FASTEST GROWING MARKET, CHINA, IS A DAY LOST WITH CRIMINAL INTENT

cash to spare, go the China way... immediately!

Just a few decades back, marketers would have ridiculed the very idea of setting-up shop in China, where per capita income stood at a sheepish 1% of USA's. Not to say that during those days, the Chinese GDP was one that was consciously ignored during discussions in economic forums, more so due to the defiant communist regime, which was more intent on autocratic uplifting of masses than on blindly promoting capitalism. But China was growing because of that same upliftment of masses.

After having broken through the $100 billion ceiling in 1988, the foreign trade figure of China ran past the $500 billion-mark in 2001 and the trillion dollar mark in 2004. Today, it has touched $2.21 trillion (figure for 2009, as per WTO), and much water has flown under the Shanghai bridge, bringing in a dramatic macroeconomic improvement. China is now arguably the second-largest economy in the world (having surpassed Japan's GDP during Q2, 2010, though Japan still leads in terms of total GDP), and is the world's second largest trading nation, and its per capita income as a percentage of that of USA's has increased to 14.2% (quite a rise from a value of $180 in 1990 to $6,567 in 2009; IMF data).

That China is turning into a huge consumption behemoth – one that Indian companies should most

selfishly exploit to whatsoever extent – is supported by many economic indicators. The rise in per capita income (a jump of 3,548% over the past 19 years!) becomes an electrifying consumption increase when seen in the light of the fact that this growth happened for a gut wrenching 1.4 billion people! China is also now the world's second-largest importer of goods (the value of which stands at a no less handsome $1.01 trillion, as compared to USA's $1.56 trillion during FY2009).

In support of China's domestic consumption comes a September 2010 paper by McKinsey Consultants John Horn, Vivien Singer and Jonathan Woetzel, titled, 'A True Picture of China's Export Machine', which shuns the age-old method used by the government to calculate the contribution of total exports to GDP growth. As per the paper, "Net exports have contributed to only between 10-20% of China's annual 10% GDP growth in recent years," while "domestic value-added exports" (DVAE; which is the net of total exports and those imports used in the production of goods & services exported), contributed to between 19-33% of the total GDP growth. This is much lower than what many agencies have claimed, including the Chinese government (according to them, exports contribute to almost 60% since 2000 till date). To sum up the discussion in favour of the Chinese domestic market, the report which uses the McKinsey Global Institute (MGI) China urbanization model, concludes, "The most common wisdom overestimates the role of exports while underestimating the role of domestic consumption for China's growth. Any Chinese or MNC that currently manufactures goods in China and primarily exports them

to other countries should ask itself whether it needs to scale up its domestic strategy to get a bigger piece of the pie."

The truth, which the tallest of sceptics concede, is that China is the next powerhouse for the world's sellers, across industries. Pulitzer Prize-winning Thomas L. Friedman wrote in an NYT column from Tokyo, "Those leaders of Japan, America, Australia, Taiwan, Malaysia, Russia, Thailand, Indonesia, Singapore, Philippines, or the European Union, who are not going to bed each night saying a prayer for China are not paying attention." The 2010 China Consumer Survey report by Credit Suisse explains how "Chinese households are earning more but saving less." Household income of the bottom 20% has risen by 50% since 2004, while the top 10% has grown 255% to around 34,000 yuan per month. The savings rate has dropped from 26% to 12% during the same period. Credit Suisse expects China's share of global consumption "to increase from 5.2% at $1.72 trillion in 2009 to 23.1% at $15.94 trillion in 2020, overtaking US as the largest consumer market in the world!"

We take a look at specific industries and the lessons that corporations which have paid due respect to the Chinese domestic market have to impart. In 2009, China became the largest auto manufacturing nation in the world, with 13.79 million units rolled out, thereby surpassing Japan as the largest automobile maker in the world. No surprises there as most of these would be exported subsequently, right? Wrong. Of these manufactured cars, only 369,600 units were exported – which accounts for just 2.7% of the volumes produced. In simple mathematics: 97.3%

of the cars manufactured in China are sold in China! And if the 100 km long traffic jam that made global headlines in August this year was some indication, China has also become the world's largest auto market in terms of annual domestic sales, having overtaken US in this respect in 2009 itself. The number of registered vehicles with Chinese number-plates is forecasted to grow from the present 62 million (as per China's State Statistical Bureau) to 200 million by 2020 (as per China's Ministry of Industry and Information Technology).

Here's an interesting piece of information. General Motors' auto sales in China rose 29% in 2010, while US sales grew by only 6%. GM sold 2.4 million vehicles in China in 2010, compared to 2.2 million in the US – the first year in GM's 102 history that an overseas market had given more sales than the American market. The company plans to touch 3 million in annual sales count in China by 2015. We suspect it'll happen much sooner, by 2013. Moving on to its Detroit cousin, Ford; in 2009, the company announced that it had posted a 44% sales growth in China. In 2010, growth for Ford became another whopping 40%; it's highest ever in China.

GM, Ford and even German Audi (which also sells more cars in China than in Germany) are geared up to set a new annual sales records this year, boosted by deliveries in China. In fact, as per a Deutsche Bank report, by 2016, China will become the largest export market for German automakers, surpassing France. Going forward, given by the fact that 44.3% of cars sold in China are local brands, including names like BYD, Chery, Geely, Hafei, Jianghuai, Chang'an, Great Wall, Roewe, et al, there lies

"CHINA'S SHARE OF GLOBAL CONSUMPTION WILL INCREASE FROM 5.2% NOW TO 23.1% IN 2020, OVERTAKING US AS THE LARGEST CONSUMER MARKET"

great opportunity for global auto makers to make the most of their Chinese odyssey. Then why not Indian auto makers?

Groups like the Tatas are those few Indian entities that have a good presence in China in general. For example in 2010, the group had 2,600 employees in China and had sales of $3 billion plus. Look at the sales growth that Jaguar had in the first half of 2011: a smashing 157%; Land Rover also had a super 85% sales growth in China in the same period. If that isn't evidence of astounding promise for other Indian firms, then what is?

New research by the McKinsey Global Institute also throws light on the emergence of the Chinese urban middle class, whose consumption power will soon redefine the Chinese market. The report claims that, "These consumers earn more than $12,500 a year and command nearly 10% of urban disposable income – despite accounting for just 1% of the total population. They consume globally branded luxury goods voraciously, allowing many companies to succeed in China without significantly modifying their product offerings or the business systems behind them." This strong 1% of the population may be just the tip of the iceberg, and that's the most likely possibility. While describing her confidence on the Chinese consumer at a leadership dinner held in New York in 2010, Andrea Jung, CEO & Chairman of

Avon Products Inc., said, "We've been on the front lines of this market for a little over a decade. We've identified it as probably the fastest-growth market. From a consumer point of view, I hope that we have proved, and are still proving, that China's growth is a domestic story. Our focus has been not so much on the manufacturing side, although we have a wonderful plant there, but on the consumer side."

There are many other names whose walk in the dragon's den tell you why China is the next place to bet on and sell. The Fortune 500 #4 and the largest conglomerate in the world, GE's revenues from emerging economies are set to increase from the current 22% to 30% by 2014. And in its attempt to make China count, the company plans to increase this market's contribution to its topline from the current 4% to about 25%. P&G, the world's largest producer of household and personal care products, which is increasingly focusing on the Chinese market, has now got China as the #2 contributor to its sales volumes and #4 in terms of toplines for the company. Today, the company commands 50% of the shampoo market and 40% of the personal hygiene market in China, a market which accounts for 25% of the 4 billion customers that P&G has globally.

The world's second-largest manufacturer of aircraft, Airbus, got 25% of its revenues from China during 2010 (as compared to Boeing's 30%). Airbus expects a total of $349.3 billion to be spent by the Chinese airline companies on acquisition of new aircraft over the next 15 years (second highest after US airlines, which is expected to spend $538.1 billion; by 2030, as per its competitor

Boeing's forecasts, China is expected to spend $400 billion in acquisition of 3,770 new planes).

From engines in the air to air waves – Nokia. If you thought that India was all that Nokia had left to hinge its hopes on, rotate your globe a little to the left. The world's #1 seller of handsets today commands a 35% market share in China (FY2009), a geographical market which contributes to 16% of its annual revenues ($8.6 billion in 2009), even bigger than India's 7.4%; surely, anything that happens in the Chinese mobile market would trouble the Finn doubly than it would if its Indian elephant ride goes awry! The dozens of steel-making companies to the chipmakers and software producers of the world, from fast-food chains to the biggest of retailers and toy-makers, from far-away America to close neighbours, marketers across companies and continents are fast realising that one big learning of their career remains the Chinese consumer tale, and if they lose out on it, they'll have little left to survive on later. Two decades back, the Chinese low-cost manufacturing prowess took the world by storm. It's the Chinese consumers who are on fire today. Sadly, there are not many Indian case studies to write home about – and that is what we call criminal.

Till the time every Indian firm's CEO believes passionately in having the vision of tapping the Chinese market, India can in no way think of beating the Chinese bandwagon. Learn to read Chinese, learn to write Chinese, learn to speak Chinese, go on and watch cheesy Bruce Lee movies in Chinese for whatever it's worth – just do it!

Long live China! Long live Bruce Lee!

15
COMPETITION

SHOULD A CEO BE PRE-OBSESSED WITH STRATEGIES TO DEFEAT COMPETITION? OR SHOULD A CEO PLAY THE STRATEGIC TUNE INDEPENDENTLY OF THE COMPETITION?

Is it less important to play to beat the competition, and more important to play to better your own benchmarks? In real corporate life, is competing of more primary importance than other factors for CEOs?

It was the classic 2005 book by Professors W. Chan Kim and Renee Mauborgne of INSEAD that caught our eyes. The path-breaking publication, titled 'Blue Ocean Strategy', proved remorselessly that going "where the profits and growth are and where the competition isn't," is the most sensible strategy for any business! "Stop benchmarking

"66% OF COMPANIES PUTTING MORE EMPHASIS ON BEATING COMPETITION WENT OUT OF BUSINESS!" NEW YORKER STUDY

the competition", "Turn your attention away from competitors", and rather, "start focusing on tapping untapped markets", were the super statements from this extremely well-researched report!

Interestingly, this concept is not that new. Way back in 1994, it was Dr. J. Scott Armstrong (Wharton) and Dr. Fred Collopy (Case Western) who first postulated after a whopping 45 year study that "firms should focus on profits, and not competition." Creditably so, again in 2007, Dr. Armstrong's study titled Competitor-oriented Objectives was published by Wharton as the stamping proof of the fact that focusing too much on competition will harm profitability, with evidence of firms like Toyota and Canon – for whom beating the competition comes secondary – performing better than their own benchmarks comes first.

Unbelievably so, such findings have now become more the rule than an exception. Accenture's benchmark 2001 global CEO survey (The CEO Challenge) shows how, though 'level of competition' is the top marketplace challenge that companies face, the same does not find a place even in the 15 challenges listed by management!

The 2001 Deloitte & Touche CEO survey of the 200 fastest growing American firms is more mind boggling! When asked, "What is your biggest risk?"..."What is your biggest challenge as CEO?"..."What one factor has

contributed most to the success of your company?" and "What is your biggest obstacle as you continue growing your business?", of all the factors listed by the CEOs (24 of them), fighting competition did not show up in even one of them! Oh yes, when asked, "What is your single biggest challenge in managing your company's rapid growth?", competition did find a mention...in the factor called 'others'! The situation isn't any different in Europe. The Deloitte 2003 European CEO Survey mentions how for European CEOs, competitive pressures are "the least important factors" in sustaining growth!

When Sudip Nandy, CEO of Aricent, spoke to Business & Economy magazine in August 2010, he had said that, "When required, we beat out competition. But we often work without competition on our own work with clients and this is the reason why we have been growing well and have been able to ride the crest and the trough."

The December 2006 issue of The New Yorker quotes a 40 year long study that shows how a shocking 66% of companies putting more emphasis on beating the competition and getting market share rather than focusing simply on profits, went out of business!

Final proof: Read the comprehensive CEO survey from Conference Board, titled, 'CEO Challenge 2007: Top 10 Challenges', in which CEOs were asked to rate their greatest concerns from among 121 enumerated challenges (covering 769 global CEOs from 40 countries). The finding shows how 'competition' expectably does not find its place in any of the top ten factors being considered by CEOs as modern day challenges.

You have our message here. If you really want to join

the Cult of CEOs we're propositioning, then one of the ways is to not to strategise purely looking at beating the competition. This is not to say that one has to be blind to competitive moves. This is just to say that there should be no preeminent, ever present obsession to just beat competition.

Make your own strategies, design your own positioning campaigns, rather than just trying to grab the competitor's customers. Hasn't worked in the past; won't work in the future.

For those who still feel scared of competition, we suggest a good read of Thorns to Competition to know how to irreverently smash competition! T2C, as the name suggests, was written primarily as the primary guide to beating competition – therefore, this chapter on competition should be considered purely reference material!

16 RECESSION

HOW TO USE RECESSION TO BEAT THE PANTS OFF YOUR COMPETITORS

Well, yes, we said that in normal times, you shouldn't focus on just beating competition. Yet, in recessionary times, when markets collapse, there's just not enough for all companies in an industry to survive; some will go out of business inevitably. And those, that learn to beat the competition during recessionary times, will succeed.

If you want to learn the tricks of the trade in recession, the first rule of the game is, understand the economic difference between a recession and a depression. They say a recession is when your neighbour loses his job. And a depression is when you lose yours. Actually, the same rule applies for companies too! Till the time

"ECONOMISTS HAVE CORRECTLY PREDICTED NINE OF THE LAST FIVE RECESSIONS," PAUL SAMUELSON

your competitors are getting rogered, it's 'fair play'; the moment the downfall hits you, it's 'Obama must go'! But seriously, the National Bureau of Economic Research defines a recession quite succinctly as the time when business activity (a conglomeration of factors like employment, industrial production, real income and wholesale retail sales) starts to significantly and regularly fall! Generally, if the fall is more than 10%, economists term the extreme recession as depression!

At a time when the IMF has forecast that the total hit due to the subprime crisis touched the gut wrenching mark of $1 trillion, it's quite imperative that corporations globally develop strategies not just to survive, but to lead the market during future recessionary times!

"Economic recession has radically changed the business and market landscape in Europe and the US. There is an urgent need to realign marketing strategies with the 'new normal'," agrees Prof. Nigel F. Piercy, Associate Dean of Warwick Business School in a column titled, 'Have Europe and US Markets Recovered From Recession?' that he contributed to the July 2011 issue of 4Ps B&M magazine.

So what do the world's most excellent CEOs do to tackle recession? The first question is, can you forecast recession itself? Nobel laureate and top-notch economist Paul Samuelson had claimed, "Economists have correctly predicted nine of the last five recessions." In other words, it's perhaps better to learn what to do when recession

hits, rather than waiting in fearful anticipation year after year for recession to hit.

During the George Bush era, the hilariously famous presenter Jon Stewart had commented once, “Bush advisers have long been worried that a lagging economy could hamper the Republican Party’s re-election chances. They hope that the Cabinet shake-up will provide a needed jolt. If that doesn’t work, North Korea has to go!” Tackling recession doesn’t really require literally ‘bombastic’ strategies (as the ones Bush uses regularly, whether in Iraq, or now in Iran) but intelligent tactics!

In his Fortune article titled, ‘Investor’s Special for the Recession Economy’, Ram Charan (Fortune considers him one of their favourite management gurus), gives four simple and broad principles for CEOs to crack the recession conundrum, which are:

(1) Keep Building: “Do not consider product development, innovation, and brand building optional. Sacrificing your future for a slightly more comfortable present is not worth it.” (2) Communicate Intensively: “It’s counter-intuitive but true that when the economy slows down, the pace of decision-making has to speed up. The companies that are readiest to act on solid information are primed to shoot ahead of the business cycle.” (3) Evaluate Your Customers: “In good times, companies manage the P&L; in bad times, cash and receivables matter more. Therefore, you need to identify your higher-risk, cash-poor customers. You could decide to simply not supply them anymore.” (4) Just Say No To Across-The-Board Cuts: “By all means cut costs if it makes sense to do so, but make sure there is purpose in

how you do it."

Jay Leno, the king of standup acts, gave a classic perspective of the US economy during the Bush presidency in one of his shows: "Some good news for the economy. President Bush went on a month-long vacation." Companies, like we mentioned before, wouldn't necessarily find the blame game as easy as Jay wishes it to be. Harvard Business School, in an April 2008 posting, gives a tempered, but well researched, response with its paper, 'Steps to Growth During a Recession'. We found a few excellent points. The report quotes, "Spend some time learning about the customers of your weakest competitors" – Instead of focusing on bagging your strongest competitors' largest clients, choose these times to add attractive customers of your weakest competitors, who would not have the wherewithal to withstand your attack. It also quotes, "Identify your most critical suppliers and distributors" – Find out ways you could help these suppliers and distributors. HBS quotes, "Even the smallest gesture can sometimes build an enduring loyalty that will pay off for years to come."

We know we're obsessed with George Bush, but he clicked with us big time. Prime time TV host Craig Kilborn commented, "President Bush's economic plan will create 2.5 million new jobs. The bad news is, they are all for Iraqi soldiers!" After you've recovered from your sarcastic chuckles on this statement, is the next, and we think the most important of HBS' learning philosophies during recession, "Think carefully about your talent needs" – When weaker competitors try to survive, many excellent employees of these companies would

find themselves without jobs. Recession is the best time to grab on to these world-class employees and give them jobs and responsibilities that they'll cherish for a long time with unwavering loyalty! But we have to be honest, the HBS report's additional finding on increasing R&D investments seemed quite out of place during recessionary times.

"INCREASE THE PACE OF DECISION MAKING DURING RECESSION; COMMUNICATE INTENSIVELY," NOTED GLOBAL STRATEGIST, DR. RAM CHARAN

Agrees Prof. Vipin Gupta of Simmons School of Management (Boston) in a column which he contributed to the April 2010 Issue of Strategic Innovators (a Planman Media publication), on retaining profitability during recessionary times (titled, 'Four Sure Ways to Retain Profitability in the 2009-2010 Economic Situation'). He writes, "The current crisis is a once-in-a-generation opportunity to acquire best quality assets and resources at historically lowest costs and easiest access, as a platform for unprecedented profitable growth over the next few decades. Plenty of resources are raring to deliver results to re-affirm their now decimated premiums."

The most distinguished Professor John Quelch, who was previously the Senior Associate Dean at HBS and is presently Dean, Vice President and Distinguished Professor of International Management at the China Europe International Business School (CEIBS), added his expert views for the marketing heads in his terrific March 2008 treatise, 'Marketing Your Way Through Recession'. Some of his key recession mantras for the marketing

team are: (a) Research the customer well before deciding on pricing tactics. Price elasticities might not change as dramatically as you might expect. (b) Maintain marketing spending. Recession is surely not the period to cut advertising. Recession creates, as Quelch says, "uncertain customers, who need the reassurance of known brands," and thus ensure customer loyalty for years. (c) Adjust pricing tactics. In other words, rather than cutting the price of your product (which will immediately send a wrong signal about quality), intelligently play around with newer promotional schemes, give credit to the A-category customers, play around with the quantity of your product in, say, every pack (price it the same, but start giving a non-noticeable less, for example). (d) Ensure employees (and customers) believe in the core values of your oganisation and believe that your organisation will get through tough times! For that, the CEO himself must "spend more time with customers, and employees."

In fact, one of Quelch's strategies of maintaining advertising spend during recession hits home in more ways than one.

Take a quick guess – which of these two is the more heard about? Subway or McDonald's? Obviously McDonald's, because it advertises more. But this is surprising – did you know that today (as of end 2010), Subway is a larger player than McDonald's. In fact, Subway is now the world's largest quick service restaurant chain [33,749 restaurants worldwide, compared to McDonald's at 32,737 by the end of 2010]. We are talking about a time, which just followed the recession that began in the third quarter of 2008 and lasted through most of 2009.

Does that therefore mean that because Subway advertised less during the recession, it grew faster? And on a general note, would it therefore mean that when going through a slowdown like the one we recently encountered, unlike what Quelch said, reducing one's ad spend was the correct strategy for a stronger and fortified future?

In this fantastic 2008 Kellogg report [Innovating Through Recession], Dr. A. Razeghi argues that in times of recession, "the worst thing you can do is to hide... and disappear from a marketing perspective." Companies should, he says, "use this time to increase their customer communication!" Prof. P. Barwise of London Business School concludes, "The most successful firms maximise long term shareholder value by maintaining or increasing their ad spending when the economy slows down... This enables them to build market share faster and at less cost..." Sir Martin Sorrell, Group CEO of the world's leading media firm, WPP, deliberates [in Their Recession, Your Opportunity] that even maintaining advertising spend vis-à-vis the previous year during an economic downturn "carries clear benefits in terms of market share and profitability once the post-recession upturn develops."

Wharton professor Leonard Lodish, in the November 2008 report [...The Tough Don't Skimp On Their Ad Budgets], strongly advocates, "If your company has something to say that is relevant in this environment, it's going to be more efficient to say it now," a fact supported by the fall 2008 JWT report [Marketing In Recession], "Boosting ad spend in a recession is more beneficial than at other times;" with the closing statements by

"MAINTAIN MARKETING SPENDING DURING RECESSION. UNCERTAIN CUSTOMERS NEED THE REASSURANCE OF KNOWN BRANDS," JOHN QUELCH

Dartmouth's marketing totem pole, Kevin L. Keller – "People who starve their brands now will be paying for it in the future." In fact, in a column on marketing in a recession (titled, 'Marketers can survive – even thrive – in a recession') that Prof. Kevin Lane Keller contributed in September 2011 to 4Ps Business & Marketing, he had mentioned, "Although the severity of the current economic downturn may involve some uncharted territory, 40 years of evidence from prior recessions suggest that firms willing to invest in marketing during a recession have, on average, improved their fortunes, compared with firms that chose to cut back. It's not just the amount of investment that matters: firms that received the most benefit from investment were often those best able to exploit a marketplace advantage such as an appealing new product, a weakened rival, or development of a neglected target market. With such strong evidence, marketers should consider the potential upside and positive payback of an increased investment that seizes market opportunities."

According to Forbes-TNS' 2008 research, the ones who suffered the most in recession are those industries that cut advertising: Real estate (-14.3%) and car makers (-6.6% to -7.1%). A McGraw Hill research proves statistically that in the past recession (1981/82) those companies that continued to advertise in the subsequent three years

enjoyed a whopping 275% sales increase, while those that didn't had at best only a 19% increase.

And to come back to the Subway, McDonald's tale – Subway may have advertised less and opened more outlets [Subway had an annual ad budget of just over $400 million in US measured media in 2010, while McDonald's had a gut wrenching $1.5-2 billion ad budget], but McDonald's still sells more burgers than the subs that Subway sells. In 2010, Subway's revenues stood at $15.2 billion, much lesser than McD's revenues that stood at a level smashing above $24 billion! Here's the deal – advertise more when recession happens and get yourself heard louder, at a time when competitors cut on ad-spend and the streets are less crowded. That will help you during the good times that will follow.

Our favourite David Letterman's classic and ripping statement stays with us forever, "Al Gore says President Bush's economic plan has zero chance of working. Now, this raises on important question: Bush has an economic plan?!??!" Seriously, look at yourself and ask, do you as a CEO have a plan in place if recession hits you?

Chris Zook and Darrel Rigby, noted consultants of the consulting firm, Bain & Company, a few years back had warned through their paper (Strategy For The Recession) that CEOs globally today don't have a ghost of an idea of what their Plan B would be if recession were to hit their economy/company. Think about it again yourself. What is the reason that you don't currently have a Plan B if the economy crashes? Zook and Rigby recommend that as a CEO, you should most necessarily "build strategic contingency planning into your culture," even if

"BOOSTING AD SPEND IN A RECESSION IS MORE BENEFICIAL THAN AT OTHER TIMES," JWT REPORT ON MARKETING IN RECESSION

the economy looks really rosy currently. A fact supported by McKinsey & Co in their paper that came out in Spring 2007, titled, 'Preparing For The Next Downturn'.

There was once a millionaire CEO who, while on a lone yachting expedition across the Atlantic, gets his yacht smashed up in a thunderstorm, floats for a fortnight living on molasses, till one day, half dead already, he floats ashore on a completely isolated island in the middle of nowhere, when he sees an amazingly seductive super-model of a woman, wearing palm leaves, walk over to him. She smiles at him, tells him how she also is a shipwreck living alone on the island. She then guides him to her awesome tree home, gives him delicious water, vegetarian food and fruits to eat, new clothes made out of super-fashionable leaves, provides him a top quality razor made out of animal bone to shave his overgrown beard, shows him her utopian teakwood bathroom, which even has a shower for him made out of bamboo sticks with coconut water pouring out! The CEO's over the moon! Freshened up, he comes out of the bathroom to see her lying down on her super sized banyan bed, dressed in a very tasteful sarong, when she whispers, "Guess what more I can provide to you!" He thinks for a moment, and then his eyes light up like crazy, and he screams in pleasure, "Don't tell me you have email too!!!"

Dear CEOs, the final lesson is, in a recession, in your

attempts to read too much into market dynamics, don't miss the obvious! Consumers will reduce their buying; markets would contract, money supply will splutter, real income will collapse.

As for us, we believe that recession can often be a boon! It can be made to be that time for your organization where you relearn not to be complacent, relearn to cut the flab and relearn to remain aggressively on your toes!

Yes, now send that email!

17
CSR

'C'ALUMNIOUS 'S'CURRILOUS 'R'APSCALLIONS

Is understanding these words when you read them the first time, difficult? That's the problem with many CEOs. They don't understand many such words that start with C.S.R, or at least feign incredibly well not to. The protagonist here is clearly 'Corporate Social Responsibility'... It was during the late 1990s that this concept of CSR started attaining prevalence within communities, spawning sporadic regulators who kept cribbing about the lusty profits being earned by the so-called "selfish" corporations, and advocating a dire need for society to "reign in" these "money making monsters." Sadly, CSR is just a clever term that has been used by many

"DONATING TO CHARITIES IS DETRIMENTAL TO FIRMS SINCE IT MAY DECREASE PROFITABILITY," SOUTH FLORIDA/ PORTLAND UNIVERSITY STUDY

CEOs and governments to mask their own under-performance, and worse, to ludicrously waste shareholders' wealth – for the truth is that CSR should never be undertaken by firms honestly sincere about their commitment to society! Some experts even claim that CSR is driven by "profit motives".

Prof. Aneel Karnani of the University of Michigan's Stephen M. Ross School of Business, through his August 2010 MIT Sloan Management Review paper, titled, 'The Case Against Corporate Social Responsibility', even goes on to label as "an illusion" the idea that "executives have a responsibility to serve not only their shareholders but also some larger social purpose". "The Reality: When companies do well by doing good, the driving force is the pursuit of profit, not a commitment to social welfare. More often, profits and social welfare are at odds. But the idea that companies have a responsibility to act in the public interest and will profit from doing so is fundamentally flawed. Large companies now routinely claim that they aren't in business just for the profits, that they're also intent on serving some larger social purpose. They trumpet their efforts to produce healthier foods or more fuel-efficient vehicles, conserve energy and other resources in their operations, or otherwise make the world a better place. Influential institutions like the Academy of Management and the United Nations, among many others, encourage companies to pursue such strategies.

It's not surprising that this idea has won over so many people – it's a very appealing proposition. You can have your cake and eat it too! But it's an illusion, and a potentially dangerous one," writes Karnani.

So what does the renowned Nobel Laureate in Economics, (late) Milton Friedman say about the idea of CSR? According to a joint 2003 paper by Profs. Jamie Snider, Diane Martin (University of Portland) and Prof. Ronald Paul Hill (Bank of America Endowed Professor and Founding Dean in the College of Business at the University of South Florida St. Petersburg)., titled, 'Corporate Social Responsibility in the 21st Century: A View from the World's Most Successful Firms', Friedman contributed to the creation of a general CSR theory by asking questions such as – Should companies take responsibility for social issues? He argued that the only social responsibility of business is to increase profits by legal means. Consequently, the use of organizational resources for the larger good, such as donating to charities, "is detrimental to firms since it may decrease profitability or increase product prices or both."

In a 2005 paper sponsored by Oracle, the statement by David Gerald, founder of Securities Investors' Association (one of the top global agencies set up for corporate governance), dramatically revealed the frittering away of precious shareholders' wealth by international corporations, "(Company) boards should be given no mandate to give to charities. If they want to do that... then they should put it to a shareholder vote." The 2005 report titled, 'The importance of corporate responsibility', by The Economist Intelligence Unit (of 218 respondents

– executives and investors) is a revelation. The report proved how the top reason for CEOs to undertake 'corporate responsibility' was, "Corporate scandals" (49% respondents). Hilariously, "society" as a factor for undertaking CSR did not even find a mention in this list. Oh yes, NGOs did find a thoroughly insignificant mention (3% respondents) in the list of who all are considered a firm's "most important stakeholders"; they were ranked second from bottom (with the coveted last rank going to 'none of the above').

No wonder that stinkingly fraudulent companies like Enron (biggest contributor to Bush's campaign in 2000), WorldCom (CEO Ebbers got the maximum sentence in corporate history; 25 years... Enron's Skilling missed the record; he got 24 years 4 months), Tyco (wiped off the most wealth ever) et al, were all regarded huge contributors to CSR activities during their heydays. Umpteen reports, like the definitive PricewaterhouseCoopers' Sustainability Survey Report, have year after year vindicated that 'providing contributions to society' does not even find mention in the "Top Ten Reasons Companies Are Becoming More Socially Responsible". From Stanford University's Social Innovation Review that benchmarked the finding that CSR "is just a placebo" where investments are "particularly unlikely to pay off..."; to Michael Porter, the father of strategy, who blasted CSR as being just "a PR game," it's clear that CSR should not be done at the shareholders' expense..

So does CSR help bottomlines? Clearly not. Paul Gilding, Executive Director (formerly) of Greenpeace International, says, "CSR, despite its emotional appeal,

is and always was a bad idea. It's intellectually weak, and doesn't work anyway." In fact, even corporations we believe are undertaking CSR, might be purely profit oriented. How about the only business corporation in the world to receive a Nobel Prize? Grameen Bank, which started on the model of micro-credit which was given out to poor people is also a profit-making organisation [net profits of 757,241,322 Taka in FY2010 ($10.76 million) on revenues of 12,435,830,045 Taka ($176.67 million)]. Dr. Yunus, founder of Grameen Bank, was clear about running Grameen Bank like a corporation with focus on profits through hard work! Thus the idea we are trying to put forth is not that we should not be in not-for-profit businesses. On the contrary not-for-profit businesses are great for the society since they can reach out to larger number of people (the way Grameen Bank could), but then they must be businesses, run like businesses with the motive of being efficient and recovering costs and even making enough profits to keep growing. For a private corporation social work can be a business but not charity.

"IF COMPANY BOARDS WANT TO GIVE TO CHARITIES, THEY SHOULD PUT IT TO A SHAREHOLDER VOTE," SECURITIES INVESTORS' ASSOCIATION

Even Lakshmi Mittal, CEO of Arcelor Mittal feels that good CSR for corporations should "always have a strategic intent" and the first responsibility always has to be to the shareholders. In an interview with Business & Economy in September 2008, he had said, "Good

"OF COURSE, OUR FIRST RESPONSIBILITY IS TOWARDS OUR SHAREHOLDERS AND TO CREATE VALUE," LAKSHMI MITTAL

corporate responsibility is always strategic. For me it is implicit in the phrase, as opposed to charitable contributions which are not necessarily strategic. There is a place for both in modern society. In today's society, business has an influential role to play in the world. Of course, our first responsibility is towards our shareholders and to create value.

"At ArcelorMittal, we don't feel that CSR is something we are pressured into doing. Rather it is an integral part of our approach to doing business that we believe is an important component of enabling us to perform to the best of our abilities. The best example I can give of this is in Kazakhstan. We own and operate the steel plant, but we also renewed the tramways, the power plants, the hotels, the stadiums, and developed social activities such as children's camps. If we had not done this when we acquired the plant, the town would not have the correct infrastructure to support the steel plant. It's a win-win situation for everyone concerned. Today, the steel plant runs efficiently and we are able to positively impact the livelihood of the community more broadly while continuing to improve the plant's efficiency. This is what good Corporate Responsibility is all about."

As we said before – strategic, which benefits all stakeholders, but one which makes Arcelor Mittal's steel plant run efficiently and creates value for its shareholders. The biggest CSR corporations do is the creation of jobs

and profits to create more enterprise. Yes, CSR is a great thing to do but only if it directly contributes to profits without weighing down on other business opportunities of the firm.

And this view is well-supported by Prof. John Danner of the Haas School of Business, UC Berkeley, who wrote in a 2010 article published in B&E, "Profound economic growth will not come from today's markets in the developed world; it will come from new ventures, products and services focused on the needs and aspirations of the four billion people who now live on less than $10 a day. This is where the future and fate of capitalism resides. That's the entrepreneurial challenge for which business schools need to prepare their students, whether as future CEOs responsible for ensuring that their large corporations not only survive but flourish for another generation or as would-be entrepreneurs courageous enough to create the next 'Power 100s' of the world... It's the entrepreneurial venture that most often drives real innovation and growth, whether in jobs, technologies or economic competitiveness. Business schools need to educate individuals who will create tomorrow's jobs and opportunities, not just manage today's."

Coming to the real truth – social development was, in reality, never the job of corporations, but of governments, to whom firms pay massive amounts of taxes. It is incredibly outrageous that governments can even think of forcing capitalist corporations to undertake CSR, a strategy that is clearly now being used to hide the government's lamentable achievements – including the example of the absurd move in India to force private

players to undertake the superficial 'affirmative action' by providing non-merit oriented quotas in employment. Worse is how in November 2011, the Indian government has introduced a renewed Companies' Bill that proposes that companies should set aside two per cent of their average profit of preceding three years for CSR activities. Such a diktat to companies by the government is most ridiculous – it should be shareholders who approve such investments than a government, which has had a shameful achievement record when it comes to social development.

CSR should never be forced, but should be a matter of personal democratic choice of shareholders. With more than 645 million Indians living below the poverty line as per a 2010 Oxford University-UNDP study (calculated using a Multidimensional Poverty Index, MPI, which was developed by the Oxford Poverty and Human Development Initiative and the United Nations Development Program, UNDP, as a more accurate and detailed source of estimating poverty levels; 55% of Indians live in poverty as per the findings), successive Indian governments have magnificently embraced CSR in the only way they have ever known – by being 'C'alumnious (abusive) 'S'currilous (shameless) 'R'apscallions (scoundrels)!

So the next time your CEO comes up with the CSR sermon, you could fulfil your social responsibility by taking him on a date to show him the classic strategy documentary 'The Corporation', where the late Peter F. Drucker snaps, "If you find an executive who wants to take on social responsibilities, fire him... Fast!"

18
ETHICS

BE ETHICAL, BE NO.1!

After reading the previous chapter if anyone has developed any confusion if we are trying to preach lack of ethics, this chapter will make things clear!

From Gold to Goldman, even Warren Buffett can get it wrong. His decisions and mistakes are both man-made. In March 2011, camera lenses around the world caught his "personal error" in understanding dealings of David Sokol (one of the strongest contenders for the Berkshire crown) with his company's capital. It all started in the Fall of 2010, when on December 13, Sokol picked up lubricants maker Lubrizol as the only name (of the 18 that Citi had put forward to him) worth investing in within the short term. He asked a Citi representative to

DAVID SOKOL, A BERKSHIRE SENIOR, WAS RELIEVED WITHIN TEN DAYS OF INFORMATION OF HIS INSIDER TRADING COMING TO PUBLIC KNOWLEDGE

request James Hambrick, CEO of Lubrizol, for a meeting concerning a stake purchase that Sokol was (personally) interested in. Between January 5 & 7, 2011, Sokol bought 96,060 Lubrizol shares at $104 per share (at a total investment of $10 million). Eight days later, he suggested to Buffett himself to buy Lubrizol shares.

On March 14, 2011, Berkshire announced a $9.7 billion all-cash buyout of Lubrizol for $135 per share (representing a 28% premium on the closing stock price, during the previous trading session – not too high as many had reckoned). That very day, Buffett had openly said, "Lubrizol is exactly the sort of company with which we love to partner." That the target was impressive was not difficult to see. Its numbers for the past five years looked strong. Sales had risen by a CAGR of 10% since FY2005, touching $5.4 billion in FY2010. So buying a company in this vertical – at much less than 2x of its annual revenues – sounded a "fair deal". Numerically, yes. Ethically, no.

Sokol, who was the Chairman and CEO of NetJets (a business aviation company, 100% owned by Berkshire) and Chairman of MidAmerican Energy Holdings Co. (89.8% owned by Berkshire), apparently had not disclosed the fact that he had made profits to the tune of close to $3 million ($2.98 million to be precise), at least not until Buffett learnt the details of Sokol's insider trading

act on March 19, 2011. Ten days later, Sokol, despite having been widely regarded as Buffett's protégé (Buffett bought his views on multi-billion dollar deals & praised his art of fixing problems in companies under Buffett's umbrella), and having brought before the company an asset as promising as Lubrizol, was relieved of his duties and resigned. But that was not the end.

Buffett has set stock investments standards in the past. Now, he is in for some lessons on how to treat an unethical employee. On April 27, 2011, Berkshire issued an 18-page report, accusing the 55 year-old of "misleadingly incomplete" disclosures (about his Lubrizol dealings) and violating "the duty of candour" he owed to the company. The matter was escalated to SEC's court, with Buffett confirming his co-operation "with any government investigations relating to this matter." For him, the star – but unethical – employee became an outsider the moment his unethical act came to light!

So, is Buffett right in firing one of his top managers and then allowing the judiciary to take over and prosecute him if found guilty? And how should you deal with an unethical divisional CEO (or any employee, for that matter) like Sokol? Fire unethical employees immediately. And then file a civil or criminal litigation directly on the accused! Companies like Nestle, leaders in ethical practice, have regularly fired even their top leaders for just one, simple, unethical indiscretion.

Incidences like this have been as much a lesson for the likes of Sokol, as they have been for Buffett. It was his mistake that he did not act on Sokol's ethical lapses in the past. Buffett should have thrown him out of the

Berkshire outfit long back and taken him to court – not once, but twice – for putting Berkshire's image at risk. Digest this: About a year before the March 2011 incident struck Buffett, an Omaha civil court had fined Sokol-led MidAmerican Energy to pay $32 million to a group of shareholders. Reason: the company had manipulated the book of accounts of one of its projects. As per the court's ruling, the CEO was found guilty of "intentionally" falsifying bottomline calculations, so that some minority shareholders were excluded from the benefits arising out of the project.

Even in 1999, when Sokol had joined the Berkshire family, with Buffett acquiring his MidAmerican Holdings company for $2.1 billion, MidAmerican shareholders had sued him for using personal relationships and deceit to convince the board. Their claim: Sokol had cheated the shareholders of $140 million, through sale of MidAmerican for a lower $35.05 per share (despite the company being worth $37.37 a share). The charges were proven and in 2003, the court ordered him to settle the lawsuit by paying up $7.5 million to the plaintiff.

So the fact that Sokol has done it again (and this time against the very Buffett), comes as a no shocker, not at least to those Group CEOs & Chairmen who know how to deal with those who try and set fire to an organisation's ethical fabric. Get rid of them – that is Bible. In a warning to Buffett's non-action, an investor of Berkshire Hathaway even filed a lawsuit charging that "both David Sokol's purchases and Warren Buffett's failure to act" went against Berkshire's policies.

Companies should be intolerant to all forms of unethical

WARREN BUFFETT'S BIGGEST ETHICS MISTAKE: HE HAD IGNORED SUKOL'S PREVIOUS INSTANCES OF FINANCIAL INDISCRETIONS

behaviour at workplace. And we are talking about everything – from insincerity, deliberate absenteeism, nepotism, harassment, being careless about information that can damage reputations, to financial frauds and cheating customers, shareholders and investors alike. Especially in the last respect, the Sarbanes–Oxley Act of 2002 (also known as the 'Public Company Accounting Reform and Investor Protection Act') has helped limit the number of fraudulent accounting acts that company officials have undertaken since it was enacted (in their August 2008 paper, titled, 'The "numbers game" in the pre and post-Sarbanes-Oxley eras', Profs. Bartov & Cohen of Stern School of Business, conclude that, "We document a significant decline in expectations management in the Post-SOX period compared to the late 1990s. This suggests that managers have reduced their reliance on such a mechanism to just meet or beat analysts' earnings expectations, whereas real earnings management seems to have overall increased").

Bosses should necessarily use the whip at the slightest hint of dirty-dealing by peers and juniors. And if the deed appears unforgivable, or damaging to the organisation's culture, using the gun and sending an attorney (to the ex-employee), is the best option. Thankfully, it is happening today in some companies. It would be right to mention here that to develop and maintain the right "ethical" culture is of utmost important for an organisation's

future. While discussing the importance of corporate culture and ethics for companies,

Prof. Eric G. Flamholtz, Professor Emeritus, Anderson School of Management, University of California, through his article titled, 'Is Corporate Culture The Ultimate Strategic Asset?' which he wrote for Business & Economy magazine in July 2011, stated that, "Some companies believe strongly in their culture – they swear by it. And while many have brushed aside this concept of culture as just another soft factor, the truth remains – corporate culture can become the very reason why your company performs well at the stock market and why it creates bottomlines which are far superior than those of industry peers. Although there are many different definitions of the concept of Corporate Culture, the central notion is that culture relates to core organisational values.

"All organisations, regardless of size, have cultures – both ethical and unethical – which influence the way their employees behave. It is now well-recognised that corporate culture is a significant aspect of organisational health and performance. Companies where there is a clearly-defined culture where ethics is a vital constituent, where the company invests time in communicating and reinforcing this culture, and where all employees are behaving in ways consistent with this culture are defined as having strong cultures. In the first empirical research study of its kind, I found that culture can account for as much as 46% of Earnings Before Interest and Taxes."

Everyone talks about how HP's board forced Mark Hurd and Patricia Dunn to quit following their immoral and dishonest conduct, but no one talks about how a

Fortune 500 name, and the largest off-price retailer of apparel & home fashions globally (worth $20.77 billion on NYSE and making $21.94 billion-a-year in topline) TJX Companies Inc., fired an employee Nick Benson two years back, for disclosing confidential company information over the Internet (related to security concerns relating to its customers' credit cards). He had made disturbing claims about security practices at TJX in an online forum, which could have resulted in serious damage of the store's image.

There have been other instances, where companies have simply showed the door to those who do not respect pre-decided norms and rules. On November 10, 2010, within hours of the leakage of an internal memo (which read: "Confidential: Internal only, Googlers only") regarding a salary hike from Eric Schmidt, the-then CEO of Google ("We've decided to give all of you a 10% raise, effective January 1st. This salary increase is global and across the board – everyone gets a raise, no matter their level, to recognise the contribution that each and every one of you makes to Google," is what it read), the employee-in- question was fired. Critics point a finger at Google's harsh decision, but do they even realise that they are questioning the #4 name in the 2011 ranking of Fortune's Best Companies to Work For?

Then there is the Big Blue, IBM. In 2003, the company fired James Pacenza, a decorated Vietnam veteran. He was fired a day after he was caught accessing an adult chat room while at work (A fellow-worker who was a witness to his deed reported the matter to the senior management). Pacenza's defense was that he suffered

MARK HURD, PATRICIA DUNN WERE BOTH FORCED TO QUIT HP DAYS AFTER INFORMATION LEAKED ABOUT MISTAKES IN BILLS SUBMISSION

from post-war traumatic stress disorder, and that his Internet addiction helped ease his psychological problems. He had breached IBM's corporate policy which strictly prohibited the access of adult websites at work and was fired the day after the complaint was received. Many question the iron-hand with which the top management of powerful corporations maintain work ethics, which starts from the very fundamental rules set by the company.

They can continue questioning. Reality is – it is "the" right thing to do. If it's unethical, it better be out! Walmart, the world's largest retailer is an example. In March 2010, Joseph Casias, a clerk at Walmart store in Battle Creek, Michigan (who suffers from brain tumour), was given the boot after he failed a drug test. It was medical marijuana, which he claimed was allowed in Michigan. Walmart was taken to court. The ruling went in the company's favour. On February 11, 2011, announcing his decision, US District Judge Robert Jonker said: "The fundamental problem with (Casias') case is that the medical marijuana law does not regulate private employment."

As per Walmart's policy, the substance was banned, and therefore, usage of it, for whatever reason, was an act of cheating the company. Many claim that when it comes to ethics, Walmart has been particularly strict only with its lower-level employees. Untrue.

In March 2005, Tom Coughlin, Wal-Mart's Vice-

Chairman and #2 executive, was forced to quit after it was proven (through a 6 week-long investigation), that over the past couple of years, about $500,000 in unauthorised payments had been made to him (which were obtained by making claims on falsified third-party invoices and other expense documents). A fish rots from the head. In this regard therefore, for leaders, setting an example by being ethical is most important.

Temptation is a problem even for the most seasoned of leaders, as Prof. Nitin Nohria, Dean of Harvard Business School mentions in a cover story which he wrote for Business & Economy magazine in October 2011, titled, 'How to Build Responsible Business Leaders?' According to him, "Behavioral finance has taught us that more people are far too confident about their investing prowess, and the same is true in ethics: most people exhibit moral overconfidence; they overestimate their own strength of character in the face of pressure or temptation. If you think about ethical behavior as an immutable character trait, you might argue that the biggest contribution Harvard Business School can make to the creation of responsible business leaders is through its admissions process: that somehow our admissions professionals will weed out "bad seeds" with questionable character, and ensure that only upright and moral aspirant managers will benefit from our training and the HBS seal of approval. While I hold our admissions office in very high regard, I don't ever think they'll be capable of this type of clairvoyant character analysis.

"What social science has taught us about complexities of temptation, situation & context, the peril of moral

overconfidence, and the many shades of gray. Responsible business leaders should be mindful and vigilant of the temptations they and their employees will face. They should create systems and cultures that encourage and reward everyone to behave well – and to speak up, without fear of consequence, when they see behavior that should be stopped. They need to remember that most of us have more confidence in our strength of character than we likely should, and we need to remain vigilant to prevent this hubris from leading us astray."

While explaining how some high-profile leaders have taken the fall by losing their way and choosing to embrace unethical practices – like Dominique Strauss-Kahn (former head of the International Monetary Fund and a leading French politician), David Sokol, Hewlett-Packard former CEO Mark Hurd, former US Senator John Ensign and Lee B. Farkas (former chairman of giant mortgage lender Taylor, Bean & Whitaker) – Prof. Bill George of Harvard Business School, in an October 2011 paper titled, 'Why Leaders Lose Their Way', writes in 4Ps B&M: "Why do leaders known for integrity and leadership engage in unethical activities? Why do they risk great careers and unblemished reputations for such ephemeral gains?

"While most people value fair compensation for their accomplishments, few leaders start out seeking only money, power, and prestige. Along the way, the rewards – bonus checks, newspaper articles, perks, and stock appreciation – fuel increasing desires for more. This creates a deep desire to keep it going, often driven by desires to overcome narcissistic wounds from childhood.

IBM KICKED OUT JAMES PACENZA JUST A DAY AFTER HE WAS FOUND SURFING ADULT CHAT ROOMS WHILE AT WORK

Many times, this desire is so strong that leaders breach the ethical standards that previously governed their conduct, which can be bizarre and even illegal."

Studies have proven over time why having a watertight workplace ethics policy is the way to keep your business right and pumping. A year 2010 report by Hay Group and Ethics Research Centre (US), titled, Ethics and Employee Management, made three key conclusions: "1. Positive perceptions of an organisation's and management's commitment to ethics is particularly important for employee engagement. Managers and supervisors should work actively to demonstrate a commitment to ethics, and encourage accountability; 2. Employees who observed misconduct were less engaged than those who did not; 67% who witnessed environmental violations were disengaged, 67% who saw the misrepresenting of financial records were disengaged, and 60% who observed insider trading were disengaged; 3. Engaged employees are more likely to report misconduct, thus reducing the company's ethics risk." In a year 2005 survey titled, Fast Track Leadership Survey, 1,655 employees of Fortune 500 companies were asked questions about their CEOs. Here was one of the key finding, "Nearly all (95%) say that a CEO's business ethics remain very important and play a meaningful role in the way business gets done. When asked to grade CEOs on specific attributes, respondents said CEOs at large companies are ruthless in their pursuit

of success (79%).” So ethics and passion to achieve success, go hand in hand.

As per a research paper by Profs. D. Michael Long and Spuma Rao, of University of Southwestern Louisiana, titled, ‘The wealth effects of unethical business behaviour’, unethical conduct involving illegal payments, bribery, environmental pollution and even insider trading, result in “a negative shareholder wealth effect because of increases in monitoring costs and risks to stakeholders of the firm. The results show that the significantly negative abnormal returns were persistent and cumulative for approximately one month following the announcement of unethical business conduct. Therefore, contrary to earlier studies, unethical business behaviour is not compatible with the goal of shareholder wealth maximisation.” [It is impressive that there is actually even the factor of “environmental pollution” included in this study. It will be good to see if anyone ever comes up with a study on the ethical nature of companies which are a threat to “health”, including tobacco and liquor companies. In our world, they are all declared unethical due to the very products they sell; and we would pull down the shutters on them!]

Like HBS Dean Nohria’s article we mentioned, some experts have even expressed the need for CEOs to restore ethics in business – both within and without corporations. One of them is Prof. Thomas R. Piper of Harvard Business School, who in the October 2002 HBS Working Knowledge paper titled, ‘What Leaders Need to Do To Restore Investor Confidence’, states that “The idea of emphasizing shareholder wealth wasn't a bad message.

[But] Maximizing shareholder wealth has become the over-arching corporate goal, and whatever it takes to accomplish that seems to be deemed OK. Ethics – that is, notions about honesty, transparency, and a concern for a wide range of constituencies – has been pushed aside and has been replaced by a technical definition of what is acceptable. So there's also no question that we need to strengthen the internal systems that guide conduct within a firm: performance evaluation systems, reward and punishment systems, compliance systems."

Even Prof. James L. Heskett of HBS reconfirms in his May 2011 paper titled, 'How Ethical Can We Be?' that "In an organisation, doing what's right starts at the top. Individual managers at the top play an essential role making sure that unethical behavior doesn't happen… It is a heck of a job to keep staying aware… To the extent that fairness and ethical behaviors are in the eye of the beholder, good leadership involves establishing expectations and meeting them, probably through a process. Trust is a cornerstone of an efficient and effective system. Bad things happen when it is undermined by unmet expectations or ethical blind spots. What can we do to insure that we are dealing with their ethical blind spots?"

Quoting Vasudev Das, Doctoral Researcher of Applied Management and Decision Sciences, Walden University, Heskett writes that words of Lord Krishna apply well: "Whatever action a great man performs, common men follow; and whatever standards he sets by exemplary acts, the entire world pursues."

Management schools these days are also waking up to the need to impart lessons in ethics to their students.

"MOST PEOPLE EXHIBIT MORAL OVERCONFIDENCE; THEY OVERESTIMATE THEIR OWN STRENGTH OF CHARACTER," DEAN NOHRIA, HBS

Prof. G. Anandalingam, Dean of Robert H. Smith School of Business (University of Maryland), while observing the change in the academic thought process of global B-Schools over the last few years told Business & Economy magazine in May 2011, that, "We at Robert H. Smith School of Business have revised the curricula of the BS and MBA programmes to include more course work on ethics and corporate social responsibility…" In an earlier (March 2011) interaction with Business & Economy magazine, Dr. Pranabesh Ray, Dean of XLRI Jamshedpur had proudly announced that, "When we talk about corporate governance policies and accountability, one simple principle should be kept in mind – walk the talk. We have been talking about scams for ages, but then the reason behind the reoccurrence of such scams is because we only talk and hardly act. XLRI has been emphasising on ethics ever since scams broke-out in the 1990s. We are perhaps the only institute in the country which boasts of professorship - JRD Professors - known for ethical leadership. Ethics and corporate governance are issues which are often taken for granted. They should not be."

Forget about corporations, even at the State level, this holds true. The Padma Bhushan awardee Dr. J. J. Irani, a Tata Group veteran and Chairman – Board of Governors IIM Lucknow, wrote in an article titled, 'Responsible leaders are by design, not destiny', in October 2011 in

Business & Economy magazine, “Youngsters in today’s highly competitive world, where you are said to be either in the rat race or out of it, may find it hard to agree, but successful and fulfilling leadership is always about the right ethics and values. For instance, it is about what decision you take if your competitor does something unethical. Logically, you would like to follow suit, since refraining from doing so can lead to some depletion in your competitive positioning within the organisation. But one can also be profitable while remaining ethical. As it is, a business can never be run on a short term basis. Short term plans can never take precedence over your long term goals. While compromising on ethics and values can give you short term results, glory in the long term belongs to those who play fair, who play the game of business according to rules even when their competitors do not.

“For instance, in the states of Bihar/Jharkhand, there was a lot of unrest that threatened companies operating there, but the Tata Group’s operations were not affected. The reason was that the concerned communities knew that our exit would also seriously affect our social activities in the area. And if that happened, the insurgents would themselves lose their support base in the region as a consequence. If our leaders act ethically and responsibly, India will become the happy nation that J. R. D. Tata envisioned. For him that was far more important as an objective as compared to becoming an economic superpower.” Not a surprise it is then that one of the first documents that you will sign on being welcomed aboard by the Federal Government as an employee, is the Ethics Orientation form prepared by the USDA Office of

Ethics. The introductory letter of the form opens thus: "To: All New Employees; Ethical conduct by Federal employees is critical in maintaining the American public's trust in the integrity and fairness of its government."

In today's work environment, employees find all the more reasons to play dirty. Under such conditions, a true reform is needed in the name of strong rules for them – have a zero-tolerance policy when it comes to ethics at the workplace. That is the secret to a flourishing business. And for you, dear CEO, that journey can start right away. Start with ethics, and you will end-up with dollars, a satisfied lot of customers, employees, and a delighted set of shareholders.

And that's where we end Cult, a book, a treatise, a covenant we formed for the league of extraordinary CEOs. It has been a privilege to contribute to global knowledge in the area of strategic management. Dear CEOs, we hope we've been successful in this quest. May you be in yours. Bon voyage!

Arindam Chaudhuri *A.Sandeep*

EPILOGUE
by
ARINDAM CHAUDHURI

1
SUCCESS

DISCOVER THE DIAMOND IN YOU!

There is hardly anything that a human being can't do if he wants to, because we are all diamonds in waiting – in various stages. Some of us yet to be discovered, some of us yet to be cut, some of us yet to be polished, some of us yet to dazzle... And some of us – who have lost their sheen and sparkle a bit with time – in need of a re-polish! But we are all diamonds, that's what I've always believed about human beings!

And if a diamond were to be the metaphor for us, then there are four Cs which make up a diamond... The first being the diamond's Carat. You would've always heard questions like, "How many carat diamond is that?" That's the most important quality of a diamond. In

human beings, carats are about the depth that we have; and it is represented by two Ps: Passion and Positive Energy! These are the two most important aspects that differentiate us from being a diamond with a high carat value! All successful achievers always have these two most important characteristics within themselves. They are extremely passionate about what they do... Passion for the poor is what made Mother Teresa go on and on despite being from a foreign country and being stuck in a dirty city with unseen poverty all around. Such people are also always full of positive energy. They never see negativity in anything! You talk to them about anything and they have a positive attitude. Friends of Sabeer Bhatia say that even when he was nothing, he would always dream big. That's the attitude which led him to create Hotmail! Thus, a human being's carat value is determined by his outlook in life, which is in turn dependent on his passion and positive energy!

The second quality of a good diamond is how well has it been Cut! The cut involves a lot of hard work. In human beings, the cut is about the hard work which is represented by another two Ps: Performance and Perseverance! Every successful human being has to lead by example. He has to perform. And his performance should always be an example to others. SRK is not SRK for nothing. Every star who acts with him praises him and becomes his fan. Why? Because when they see him and know him, they see his hard work; they see his track record of delivery; they see his performance. And they know he is a well cut diamond. The other aspect of performance is perseverance. As they say, talent is table

salt. It is available aplenty. What differentiates the talented from the ordinary is a lot of hard work... and the ability to persist in the face of adversity. That's what makes a Shah Rukh Khan what he is!

The third great quality of a good diamond is its Colour. And in successful human beings, colours are synonymous with two more Ps: Personality and People Skills! That's what makes for the next most important quality of a diamond! If you want to bring out the diamond within you, you must inculcate a super personality and have high quality people skills. Successful people have great personalities; they nurture it, they groom it and they practice it! Personalities aren't developed overnight! Personalities are developed with a lot of clearly directed efforts. And here, the 'LAW' of personality is about looks, actions and words... The way you look – not physically, but the way you carry yourself – the way you act or behave in front of others and the words you choose, make a personality. Prannoy Roy is an ideal example of a personality! The moment you look at him, there is respect; the way he behaves and uses his hand movements to explain things make him interesting; and of course, finally, when he speaks, the words leave you awestruck. And that's why even after years he is still such a favourite of the masses despite so much competition on television today.

The other aspect that determines the Colour of a human diamond is people skills. People who believe that they can go it alone or those who don't respect the need to work with people for a common goal, can never be successful! It's because Narayana Murthy believed in having good people around him and nurtured them,

that today not just has he been able to retire peacefully, but even his deputy Nandan Nilekani has been able to hang up his boots leaving the organisation on Kris Gopalakrishnan; who in turn has handed over the CEO mantle to SD Shibulal, another most capable founder member. Infosys is the most beautiful example of how great people make great organisations and how no one needs to be indispensable in a great organisation.

The final characteristic of a great diamond is its clarity. And in the human diamond, clarity stands for three different Ps: Perspective, Principles and Patriotism! These three Ps define a human being. Do you have principles that you can live by? Do you have a perspective and a plan of where you are headed towards? In other words, do you have a vision? And finally, what defines the human diamond is whether the individual has patriotism inside or not. If you don't have any of these three, you will only remain a diamond that is perhaps well polished but will never dazzle and make its presence felt. Nurture these 9 Ps of a human diamond, and you will discover the diamond in you! All the best!!!

Written above is the concept note of my book, Discover The Diamond In You, The 59 Minute Success Guide. The book further elaborates upon the 9P success Trilliant Model.: Arindam Chaudhuri

9P

SUCCESS TRILLIANT

Discover the Diamond in You

ARINDAM CHAUDHURI & A. SANDEEP

2
RESPONSIBLE LEADERSHIP

SURVIVAL OF THE WEAKEST, THE NEW MANTRA FOR RESPONSIBLE LEADERSHIP!

As I sat down to write on the topic of responsible leadership, I thought that it was pertinent to write about a personal favourite theory of mine that I wrote about in my book The Great Indian Dream; and the theory is the Survival of the Weakest! Although it was intended to be more of an economic theory, I think that it is perhaps the most important aspect of responsible leadership that our country's leaders – political as well as corporate – need to follow.

I have always believed that driving an organisation by looking only into profits is like driving a car by looking only into the rearview mirror: it tells you about the road

you have been through but not about the road ahead. Today's entrepreneurs, leaders and businessmen carry the responsibility to take India into the new world order. This requires leaders with a vision who understand the seriousness of the responsibilities they carry. But for this, they first need to understand their country well.

India is ranked 119th out of 169 countries in the world in the Human Development Index for 2010. Today, around 37% of the Indian population is living below the poverty line as per the Tendulkar committee report in 2010. As recently as in 2004-05, the government estimated that 25.7% of the population (and not 37%) was living below the poverty line! The Director of the UN Research Institute for Social Development, Thandika Mkandawire, has commented that the Indian data (with respect to poverty estimates) is "always controversial". As is known, the poverty line in India was recently defined at Rs.32 per person per day for urban areas and Rs.26 per person per day for rural areas. Only Indian politicians and economists with all their insincerity have the ability of calling this a poverty line. This should be called the destitution line. As per the government, earning Rs.960 per head per month is enough to be above the poverty line in urban India! No wonder that in the red light district of Bombay, Kamathipura, women are bonded into prostitution today because years ago their grandparents took loans ranging from Rs.12 to Rs.50! Today, we contribute 1.32% to the world's total exports (WTO figures for 2009). Compare it with China, which contributes 9.6%. Their percentage might still seem lower because of their phenomenally competitive prices.

But to realise the Chinese impact, one has to just visit the shops of Europe and USA and pick up any product – from the cheapest of utility items to the costliest of designer goods – to discover that they are all 'Made in China'. India alone accounts for around 35.5% of the total adult illiterate population of the world (283.1 million illiterate adults in 2010); yet, we are excited about being the country with the most qualified & educated human resource. In India, we have 1 Indian doctor per 2,400 Indians but we have 1 Indian doctor serving every 1,325 Americans in the US!

Today, 40% of Bombay is a slum and 35% of Delhi defecates in the open. Only 232 towns in India have a working sewer system and that too partially including Delhi. Around five lakh people still carry human excreta on their heads everyday. India ranks 67 on the Hunger Index for 2010 taken out by the International Food Policy Research Institute (IFPRI) and is home to 42% of the world's underweight children under the age of five (Nepal, Pakistan, Sri Lanka are better, and so are Sudan, Lesotho, Uzbekistan and Rwanda). We created such a lot of noise when just about 50 people died of plague because the richer segments of our economy were also under danger. But when around 370,000 people die every year of T.B. and nearly half a million people suffer from diarrhoea everyday, no one raises a whisper. China has around 60% of arable land compared to India. Their annual food production at the same time is 550 million tonnes (2011 projections) as against the 241.56 million tonnes that we produce (RBI, FY 2010-11).

We still see leaders in India who just talk or play

the unending blame game, a corporate world which still cannot go beyond seeking concessions from the government, an NGO sector which has become an industry in itself and also the rest of us, who have little choice but to watch helplessly, waiting for crusaders like Anna Hazare to come along. With a crippling lack of leadership at the government level in the country and oceans of sufferings around us, one often wonders if India truly is a democracy, when people don't have basic rights to food, drinking water, health, sanitation – in short, the right to a life of dignity, or in most cases, the right to life itself. Contrast this with neighbouring China, where things happen through massive top down planning from the government at the centre. Growth in China has also succeeded in rapidly lifting people out of poverty. UNDP data states that incidence of rural poverty went down in China from 30.7% in 1978 to just 1.6% in 2007. Clearly, this makes it not only a country which has taken far better care of the poorest of poor, but even a far more strong market for business as compared to India.

What has worked, to the extent it has, in India is the private sector post the liberalisation era. We would realise that entrepreneurs and leaders of the India of today have this tremendous responsibility of taking this country of poor, uneducated, unemployed and ill-fed ahead towards a new beginning. Looking at the central leadership issues, India has to necessarily be a bottom-up growth story led by private enterprise. For this, the private enterprises need to realise the importance of utilising the various lobbies that they control like CII, FICCI et al to pressurise the government to come out with pro-people and anti-

poverty policies to help this country grow. Private players need to come out of their petty and short sighted vision and focus upon the larger interests of the country.

They need to realise that in the country's interest lies their interest. No amount of management and marketing techniques can enable corporations to have a more than 10 to 15% growth in their market – but the market can be expanded by more than 1000% by increasing the purchasing power of the people. Then, instead of the middle class being an approximate 100 million, it would become more than 500 million. This common sense economics should be clear to everybody. Otherwise, we will keep standing and watching most FDI flow into China with its much larger market base. If the purchasing power levels in India increase, these very entrepreneurs who command no respect in the global arena today will walk with their heads held high tomorrow. This is exactly where survival of the weakest comes in.

For long, economists have been blindly following Darwin's theory of "survival of the fittest" as the maxim for the functioning of the capitalist economy. The problem is, however, they forget that the whole purpose of functioning of an economy is to move towards a more civilized form of existence. Civilization has seen man moving out of the jungle and reach where he is today. Sadly, however, he has not yet been able to discard the rules of existence that he used to follow in the jungles. Capitalism from the very beginning has been based on the principle of individualism and survival of the fittest. When Adam Smith talked about man being rational and therefore trying to maximize his returns if left free in

the market... he had also referred to the same principle. The rules of the capitalist market have always wanted us to compete with others and maximize our benefits (read as profits). Critics point out the fact that when left free in a market, an individual's return is not only a function of his competence and efforts (in terms of the number of hours he puts in) but also a function of his past accumulated wealth (on which he might have had no contribution). In a jungle, the "fittest" refers to the strongest, or the one who can best adjust to the existing environment; in an economy, the "fittest" would refer to the richest. Therefore, we see that the market economy has always helped the rich to grow richer at the cost of the others.

I don't want to question the contribution of capitalism in making this world a better place to live in. What I want to say is that after so many years of growth and development which has seen capitalism reach its materialistic peak, enjoy the comforts which at one point of time would have sounded unrealistic, why doesn't this system yet focus on the crucial aspect of the ever widening gap between man and man, that is, the rich and the poor. Today, when the rich already have five cars, can't they stop for a while till the others at least come up to a situation where they don't die of hunger, before they decide to buy their 6th car? Men are born equal. If given the same opportunities of health and education, their capacity to contribute should have become nearly equal; the only difference being in terms of intelligence or combination of genes that they possess. It is the society that we have created where these opportunities

are not equally distributed/guaranteed, thereby leading to a difference between man and man. Today, while some of us have reached such high standards of living, it is the right time to bring in some humanitarian aspects to the society we live in. Is it not true that in a family that might have a physically challenged individual, the maximum resources and comforts are directed towards that individual? If such a family were to have the budget for just one air-conditioner, wouldn't it be most likely that the air-conditioner is put in the room of such a challenged individual? Or is it that the family – believing that the physically challenged person can't contribute – stops giving food and other such basic necessities to the person? If the former is what is most likely in a family, then what does it point to? "Survival of the fittest" or "Survival of the weakest"?

When an economy reaches a stage where the fittest can live well even if their standard of living doesn't grow rapidly, it is the duty of that economy to put its resources on the weakest and their survival. In our respective families, we all believe in communism; that is, to each according to his need. But when it comes to the nation, we want to follow just the opposite. By this, I am not insisting on all economies to turn communist; but I am expecting them to incorporate this most human and natural rule of family existence in their nations, while they continue to operate in a free market. Peter Drucker wrote once that the Americans are already spending on an average 23 hours on social work every week... Let them lead the way in the introduction of the concept of survival of the weakest in the society. Survival of the

fittest should no more be a concept of any importance in today's world. The strengthening of the weaker sections of the society today need not be at the cost of the stronger. The maximum that can happen is that the rich would grow at a slower pace and their capacity to grow at a faster rate would be transferred to the poor and get reflected in their future. This contribution from the richer sections of the society is something that the world would be proud of tomorrow. To me, this is the cornerstone of responsible leadership that today's generation of leaders needs to understand and follow.

It should not just be at a national level but also at an international level. The stronger nations of the world should start supporting the weaker nations of the world in a genuine manner unlike what they do today, wherein, after such a lot of haggling, a majority of these nations have declined to contribute even 2% of their cross border revenues for the development for the third world countries. The whole of Latin America and Africa combined doesn't have a single permanent member on the Security Council; India with a population of almost one billion, too does not enjoy the privilege. The obdurate veto system along with the abuse of the Security Council by the powerful nations is exalting a new colonialism within the UN. The UN was formed at the end of a monstrous war that had claimed some 10 million lives. More than twice the number of people killed during the Second World War today die of hunger and curable diseases; all this while the United Nations brags of bringing peace in the world. The rich countries enjoy a life expectancy of around 80 years while the poor countries hardly enjoy a

life expectancy of around 45 years. This is what survival of the fittest has achieved. Don't the people born in the poor countries have a right to live beyond the age of 45? These billions of lives are being brought to an end by the rich countries for the sake of a few additional comforts to their already existing ones. How long shall we wait for the carnage to stop?

And finally, some last words for the big Indian industrialists who might get worried reading all this. The success of our industries or their respective companies doesn't actually primarily depend upon the kind of business strategies they have or the latest jargons that they have adopted from their multinational consulting firms or their exciting marketing and sales promotional schemes. These may matter, but there's something much more important for the industrialists. The success of their companies in the long run primarily depends upon how vast is the market that the economy has been able to give them and how much is the purchasing power of the people in the country they wish to sell their goods.

With "Survival of the Weakest" as the maxim, the people at the bottom level would get more purchasing power along with better health and education facilities, which would not only make a huge difference in the quality of human capital in the country but would also satisfy the most important criteria for the growth of the Indian industry; that is, they would become a part of the consuming market. If that happens, then the market will no longer comprise just 100 million people with purchasing power but perhaps even 1 billion people, because it is purchasing power and only purchasing power

of the market that determines the long run growth of any economy, industry and company. No marketing strategy can achieve the above market expansion. This is pure economics and no miracle. So, not only for the sake of humanity but also for the sake of their own long run interests, industrialists should support policies which benefit the weaker sections of the society and which contribute towards this strata's uplifting.

For countries like ours, the concept of survival of the weakest would also entail a focus of the private sector into not-for-profit entrepreneurship. The moment we take out the profit motive from any private business plan, the growth becomes endless. I clearly remember the case of an organisation, which was floated a few years back in Delhi trying to provide door-to-door medical ambulance services. They were charging an astronomical amount of Rs.9000/- per family as membership fees. In spite of their tall claims, they are history today. A few years back, in the villages of Bengal, we were thinking of launching an ambulance service in the memory of my brother. We worked out all the costing; and today the ambulance service is a reality and people pay just Rs.600/- to become a member; and also pay 66% of the market price of the taxi service every time they avail of the facility after the first time. The first time, it's free of cost. It's one of the most popular activities that we undertake in rural Bengal as a part of Aurobindo Memorial Manav Sewa Kendra that we operate. Now, we plan to launch similar services all across Bengal and also in the large metros. The point that I am trying to make is that if I were to charge Rs. 9000 (with a profit motive) and cater to a hundred people, I'd

perhaps remain in business for two years or so. But if I were to charge Rs. 1000 (without a profit motive), I could cater to thousands of people and remain in business for years. This is not mutually exclusive with the objective of covering costs and making enough money to satisfy the needs of the people managing the not-for-profit institution. The Grameen Bank in Bangladesh provides credit to over 8.35 million poor people residing in 81,279 villages. It gives 97% of its loans to women and has given a cumulative disbursement of above $11 billion at an average of around $127 per person (2009 estimates). Yes, that's what the power of the social sector is and that is how little a loan on an average is required to make the poor self sufficient. The bank has a record of recovering more than 88% of the loaned amount mainly due to the fact that most of the beneficiaries are women.

And it is a revolution in its own right. Since 1994, we've been working out various schemes with similar objectives in villages of West Bengal. Surprisingly, we have found out that a loan of Rs.250 can change a family's calorie intake dramatically. A family of four can buy 5 chickens with the help of this money. In a month's time, when the hen starts giving about 10 eggs a day, the family is able to pay back the loan in 25 days time from 50% of those eggs and consume the rest for months to come, thereby changing their food habits. By the time the hen dies, they have saved enough money through the extra eggs to buy more chickens.

It's high time we redefine the basic rules of the capitalist economy and business leadership; and it is time for us to become better global citizens with a bigger

heart for those marginalized by the society; and this is possible by following "Survival of the Weakest" as the guiding principle of economics as well as of responsible leadership for the next millennium.

Written above is the concept note of my theory, 'Survival Of The Weakest'. My book, The Great Indian Dream, further elaborates upon the same: Arindam Chaudhuri

3
THEORY 'I' MANAGEMENT

IS THE WORLD NOW READY FOR THE INDIAN STYLE OF MANAGEMENT?

Theory "I" talks about how global management concepts are now getting influenced significantly by lessons from the Indian context, both culturally and professionally. With more and more Indians taking up global leadership roles across the world in varied areas of society, polity and industry, is the world getting enmeshed with and finally accepting the Indian style of management?

What should you then call the Indian style of management? And even before that, why should one even accept the hypothesis that the simple ascendancy of individuals with a heavy Indian lineage to global positions is the finalistic evidence that the Indian style of management is gaining prevalence in power corridors? Isn't the Indian

"style" atypically laced with the capitulating negative tint of the wheeler dealer variety; of the manager who believes in being effective than on simply being efficient? Yes, that may be true. But even though in discussions pertaining to how Indians 'manage' issues, while one might be more prone to straddling the critical cynicism laced fence, look a little deeper, with an honest openness to the happenings around the world, and however much you might wish to, it might not be possible anymore to disregard the slow but sure rise of these very Indians in the power corridors that run the world.

Some say it's simply the law of averages. Throw a handful of chewing-gums on a wall and simply by the law of averages, a few would stick on. The corollary, shove a few million Indians into Europe and US, and some would eventually become leaders. Well, that may be true too; but only at levels and in groups that are more driven by hard labour than by skill and intellect. The moment one talks about societies based on meritocracy – a factor that drives many Western nations – then all these debates can be rejected, as then, it wouldn't matter whether the individual came from a large demographic group or an insignificant one, what would matter is the person's personal capability, capacity and competence.

So while a few years back, one simply boasted of Google having Indians as amongst the largest ethnic groups of workers, today one boasts of people like K. Ram Shriram (member, Google board of directors) and Nikesh Arora (Chief Business Officer, Google), whose names are listed just below the likes of Eric Schmidt, Larry Page, Sergey Brin on their corporate listings. The

growing number of people of Indian origin at the helm of leading companies and top B-schools is another sure evidence of this hypothesis being forwarded. Adobe CEO Shantanu Narayen, Citigroup CEO Vikram Pandit, PepsiCo CEO Indra Nooyi, Sun Microsystems co-founder Vinod Khosla, Motorola Inc. Co-CEO and Motorola Mobility CEO Dr. Sanjay Jha and more recently, Reckitt Benckiser CEO Rakesh Kapoor, represent the growing and fruitful aspirations of Indians in global companies. Similarly, South Carolina Governor Nikki Haley, USAID administrator Rajiv Shah, Solicitor General of United States Neal Katyal, Chief Information Officer of United States Vivek Kundra, Satveer Chaudhary in Minnesota and Upendra Chivukula in New Jersey. Louisiana Governor Piyush Amrit (nee Bobby) Jindal top the politico-bureaucracy list too.

The 2000 US Census had already given the initial pointers to this by mentioning that Indian Americans had the highest median income of all groups. A Duke University-University of California Berkeley study showed that from 1995-2005, Indian Americans had started more engineering and technology companies than British, Chinese, Taiwanese and Japanese immigrants put together. All this simply could not have been possible if we were purely considering the gum-on-the-wall theory to assess individual advancement. Clearly, there's something that Indians are doing right, which is allowing them to advance to leadership positions in various streams of society. And this has to directly do with the management and leadership skills that they are practicing on their teams, companies and peer groups, much of the

skills which I am convinced have developed due to their connect with India – in terms of their cultural upbringing, family background, educational focus, objective oriented approach in life and similar aspects.

Of course, there's the opposing argument – and quite convincing for that matter – that an Indian who has lived in America for two to three decades perhaps has become completely disconnected with what is being Indian and would have completely forgotten the 'life lessons' which I've purported above. To sweep away this argument would take less than a moment. Just walk into the home of any Indian family that has spent this argumentative two to three decades in the United States, spend a few hours with this family, and you get to understand the logic of what I'm putting forth. They might be Americans in terms of their citizenry – and I have no issues with that – but the legacy of their Indianness goes much beyond simply the name, and much deeper than the religion connection that also plays a heavy card. And that's where the Indian-style-of-management hypothesis, the Theory I of it all, comes back in one big wave.

Since the 1950s, management theory and practice has been heavily influenced by the likes of Alfred Chandler, Igor Ansoff, Peter Drucker, Herzberg, Fayol et al. Their theories and those of their peers defined how CEOs and institutional leaders ran their companies and managed their people. McClelland, Skinner, Maslow while building on Elton Mayo's work became iconic proponents and definers of human behaviour in the 1960s-80s periods. Blake and Mouton added to their celebrity quotient by inventing the Managerial Grid. Hershey and Blanchard

went many steps ahead and beseeched the 'leader' bunch to become situational leaders – in other words, to moderate their leadership skills depending upon their followers. Giving them glittering company were Levitt, Kotler, who redefined marketing in ways nobody else could, and more contemporarily, Ries and Trout. And then Michael Porter happened to the strategy world, where cost leadership, product differentiation, competitive advantage became terms as common as the morning weather forecast for every CEO. Yes, the list is exemplary and par excellence – more because what these people said, worked.

But somehow, somewhere along the line, the Americanness of it all went completely unnoticed for many decades. There were no questions asked on whether management and leadership philosophies from other parts of the world could perhaps work better. How often has one heard of an American organisation adopting the Japanese management style to surge ahead? Perhaps never. And how often has one heard of the reverse? Probably never again. However, I do remember reading somewhere that when IBM in America was making losses while IBM in Japan was making profits, IBM-USA tried to adopt the Japanese management style to turnaround. Well, the result...increased losses!

Predictable? Should be. It is most likely that a style that is successful in Japan would not be as successful in US; and vice versa too. People are different, cultures are different and so is the life-style. That is the reason why Japan has developed its own management style and the US its own. If we take a deep look into the American management style, we realise that it is absolutely fine-

tuned to the American culture and way of living. The people in the West grow up, mostly, with very less emotional security due to factors like high divorce rates, single parent families et al. As they grow up, they do tend to find a sense of stability in this seemingly unstable and insecure atmosphere. Thus, when they enter into their job lives and see a management culture prevalent, which is contractual in nature with the hire and fire style of management, they don't get disturbed. In fact, this motivates them to work harder; and a typical American might metaphorically say, "We are tough guys and as long as we are good, the company keeps us, else we go out". The bottom line is that the fine tuning between the culture at home and at job works wonders and enhances productivity & motivation.

Looking at the Japanese set of companies, one finds concepts of life time employment working wonders out there. A Japanese finds a bonded culture in his organisation, unlike the American contract culture. If we look into the Japanese lifestyle and culture, we would find the importance of bonds being very high. The Japanese have strong family ties and a strong sense of community. From such an upbringing, they feel at home when they see a bonded style of management on the job. The typical Japanese would say, "I am a Honda man (and not that I work for Honda)", displaying the bond that he shares with his company. The point that gets highlighted again is that a management style, which flows out of your own culture and roots, would any day motivate your people much more than one which is adopted from somewhere else. I am actually attempting to disprove my Indian

style of management hypothesis much before I've even proved it. But seriously, it doesn't take a post doctorate to understand that nationally bound management and leadership concepts should be able to succeed only in those geographies and demography for which they were originally intended. Therefore while America is the world's largest economy, Japan the second largest and China racing down their necks, all three have brilliantly different management styles – and all three have similarly different cultures; therefore, the match between their cultures and management styles is perfect. Then why should an Indian style of management succeed (say in the West) where almost all others have failed on the portability parameter? The answer to that lies in the genesis of the Indian style of management.

This genesis that I am alluding to is what can be encapsulated quintessentially by the term 'Indian culture', with one significant facet of it being the wondrous quality of not trying to impose its own character, but in trying to modulate the character of individuals and entities around to the benefit of the larger good. If that sounded over the top, let me simplify it by the term, Theory I.

While organisations globally must practice culture centric management practices – and there is little doubt about that – yet historically, there have been greater management practices available across the world, and for ages, which are globally applicable. And that's where a lot of Indian values and management thoughts flowing out of the Indian scriptures are those that I believe – in fact am totally convinced – are applicable worldwide. In fact, when I look around and analyse the current leading

Western thoughts on leadership and management, they almost seem to have been plucked out of the ancient books that the Indian culture has promulgated with ease through its societies. So when I read Steve Jobs' biography, The Journey is the Reward, I am thrown back to the oft-used quote from the Geeta, "Karmanye vadhika raste, Ma phaleshu kadachana;..." which, transliterated, alludes to the same proposition that it's the work (the journey) you have a right to, not the fruits. So when I read treatises like The World is Flat by Friedman, I am thrown back to the Hitopadesha, which quotes "Udaracharitanam tu vasudhaiva kutumbakam," which says that the whole world is your family. So when I read The Fortune at the Bottom of the Pyramid, it's quite clear that the book's essence comes from the Survival of the Weakest, a theory that I developed from my understanding of how the human race should progress – not through 'Survival of the Strongest' (which is how animals progress) but by supporting the weakest sections of our society, in the same way as a family would reserve the maximum household resources to the weakest individual in the family. And when I'm told that Situational Leadership model is the most influential leadership model practiced globally, I know for a surety that the inspiration for this model could well have been Lord Krishna's superlative model of leadership – he divided people into tamas, rajas and satwas (tamas are the least capable, satwas are most mature and capable, and rajas are in the majority who are ready to work). Krishna had given his situational leadership model for these individuals eons ago by recommending saam (equality), daam (price; for rajasiks),

dand (punishment; for tamasiks) and bhed (division; for satviks) philosophies. But beyond this, Krishna even gave his followership theories, advising the 'followers' on how to use different followership styles. Will this also become a Western theory soon? That could happen, yes, but my import is much wider.

And that is that Indians have been exposed to contemporary Western management practices since centuries. The lessons that have to be taught, retaught and again to Americans and Westerners are lessons that Indians have imbibed into their subconscious and personalities ages ago. These very values that a majority of Indians have ingrained are those that are making them better global citizens and more likable in a globalised world. More importantly, the very fact that India itself is a land of varied cultures with a multiplicity of different ethnicities has forced Indians to learn to manage multi-cultural behaviour since their childhood. And those who learn to manage with such variations here can adapt themselves much more easily in this globalised world. Yes, the world may be flat for Americans recently; it was so for Indians since the Upanishads.

When it comes to Indian professionals, there has been little doubt across the globe with respect to their sincerity, intellect, creativity and adaptability. In the pre-liberalisation era, a number of Indians, particularly the brightest minds, faced tremendous constraints at home due to flawed institutions as well as ramshackle & corrupt systems. When they managed to get their visas and move to 'promised' lands, the enabling environment and world class systems proved to be a shot in the arm;

inspiring them to outperform the best in their respective fields and create a favourable ground for more of their ilk after them. In the period when they migrated to the US for higher studies, a number of students from other countries were also pursuing academic goals, particularly the Chinese. But the Indian appetite for pursuing higher education in terms of Ph.Ds became second to none among this immigrant population. It is because of this that their ascent to the peak was only a matter of time. Yes, more Chinese are being given doctorates than Indians – temporary visa holders from China received 4100 doctorates in 2009 compared to 2263 Indian doctorates, as per a US survey – but the here and now is India's and of Indian professionals.

And if you move up the value chain, if you were to flip through the faculty lists of leading business schools globally, and especially in the West, you would realize that a plethora of the distinguished faculty is Indian. The management world of today is not only being taught by Indians, but their management thoughts, practices and philosophies are being modulated by the Indian way of thinking. Indians are writing case studies, papers, projects and commentaries on management that are defining the way America does business. So when a Professor Jagdish Seth writes the brilliant book, The Self-Destructive Habits of Good Companies, it was only a matter of time that he received the Goizueta Global Innovation Award in June 2008; it was presented to him by John Quelch, then Senior Associate Dean at HBS. In the same manner, it was only a matter of time before Indians became deans of the world's leading business schools and made sure

the world followed the Indian way of doing things.

The list of Indian deans of prominent global B-schools like Nitin Nohria (Dean, Harvard Business School), Sunil Kumar (Dean, Booth School of Business), Deepak Jain (Dean, INSEAD), Yash Gupta (Dean, Johns Hopkins Carey Business School), Raghu Tadepalli (Murata Dean and Professor of Marketing, F.W. Olin Graduate School of Business), Dr. Jaishanker Ganesh (Dean, School of Business – Camden) and G. 'Anand' Anandalingam (Dean, Robert H. Smith School of Business), some of whom are featured in this cover story, is even more impressive. This list would not remain constant as time progresses, growing with many more Nobel Prize winning laureates than one cover story can handle. But what would remain constant is the fact that this current moment defines the beginning of a movement that would take centuries to slow down, if at all... and that's what I call Theory 'I'...

Written above is the concept note of my theory, 'Theory 'I' Management'. My book, Count Your Chickens Before They Hatch, further elaborates upon the same: Arindam Chaudhuri

EPILOGUE
by
A. SANDEEP

1
VISION VAMPIRING

THE ZERO VISION CEO!

No double takes please! After explaining the importance of vision in the first chapter of this book, I am not trying to explain the reverse. However, if visioning is important, more so is zero vision! That's vision the other way round! 'Zero vision CEOs' is the other name for CEOs of companies like General Electric, Toyota, Wal-Mart, Convergys… But how could these companies, rated amongst the world's best, be headed by zero vision CEOs? Well, for the answer, you would need to step back and understand a perspective of management that escapes even the deepest of analysis – the concept of leading without visioning for the entire organisation; the concept of zero vision at the top.

As contrarian as this might appear to be, this leadership technique was initiated in reality by Japanese corporations in the late 1950s & 60s. As a benchmark example, when Honda wanted to enter the world's biggest automobile market in the 1950s, the Chairman, Fujisawa Honda handpicked one of his extremely enthusiastic juniors, Kihachiro Kawashima, and told him to go ahead and just do "whatever was possible" to sell Honda motorcycles in the US. Yes, Fujisawa had designed Honda Japan's vision – yet, he refused to partake of the vision development process of Honda US.

With everything going against them – from the Japanese government to anti-Japanese motorcycle dealers, from quality control issues to a complete lack of knowledge about the season during which bikes are sold in the US – Kihachiro and his team of four arrived on US shores, and failed like nobody's business in the first year of operations; what with the typical American customer being a 'Harley' stereotype and preferring the 'macho' designed bikes, rather than the smaller and less 'tough' motorcycles being provided by Honda. But what kept Kihachiro and his team slogging on with an astounding patriotic commitment was the fact that Fujisawa Honda had drilled into this team that it was purely their vision, and not any other senior's vision, that was going to determine how Honda fared in the US.

In other words, the Chairman was committed to not superimposing his personal vision or even the corporate vision on the US chapter of Honda – that is, he was passionately nurturing magnanimous vision at the level just below rather than monopolising the area of vision

development. The trust that the corporation and Fujisawa placed in Kihachiro was mirrored by the unbelievably high level of responsibility he showed; a level that resulted in Honda capturing a mind boggling 50% of the United States market with its 'non-macho' bikes within ten years of entering its shores, and with a simple positioning line that became the most famous slogan in the motorcycle industry for years to come, "You meet the nicest people on a Honda."

In summary, a CEO has to ensure that rather than being a multiple-vision CEO, he has a team developing the vision of the different levels of the company rather than he himself being solely responsible for the same. Yes, such a Zero Vision CEO still develops the overall top level vision – and vision rolls down from there to the organisation – but the 'sub-vision' development has to be with committed involvement of the people at those sub-levels (who'll consequently feel more related to their level's vision targets) rather than of the CEO; for the moment he does this, he finds innumerable leaders within the organisation who grow in competence, confidence and commitment to be the future replacements of the CEO. And this leads to our next lesson.

THE ISSUE OF VISION STRANGULATION.

There's a bigger advantage of being a Zero Vision CEO! As we move down the levels of management in very large or transnational organisations, the principle and spirit of top level vision is perfectly strangulated and killed because employees at lower levels get enmeshed in their job responsibilities and work pressures, instead

of getting enmeshed in vision. Also because more often than not, the magnanimous corporate level vision does not relate to the everyday job of employees.

For example, the global diversity vision of Microsoft is 'To be led by a globally diverse workforce that consistently delivers outstanding business results, understands the various cultural demands of a global marketplace, is passionate about technology and the promise it holds to tap human potential, and thrives in a corporate culture where inclusive behaviors are valued'. However, the Business Head of Microsoft's Xbox business would obviously be less worried about standing up to the corporate top level vision statement and more about Xbox sales figures! This exemplifies how work pressures at functional levels succeed in strangulating orientation towards the overall vision. How wonderful it would have been if he had a vision booklet that documented the visionary targets he needed to achieve?

Clearly, if you've got to stop such a strangulation of vision, then there can be no single vision that can be applied to the complete organisation. Instead of attempting to force the corporate vision down the throats of junior stakeholders and employees, employees should be instead provided a terrific mix of top level vision philosophy and expected best-level achievements at their own management (or functional) level. So how do you do that?

VISION VAMPIRING! ...SANS THE BLOODY TRAVAILS

Having made the importance of vision clear, it's time

to move on to the concept of something I call Vision Vampiring! Yes, it's a wild term. Yes again, you won't find too many management authors ready to take the truant plunge into using such radical terms. But hey, if Robert I. Sutton from Stanford could write a best-selling book titled 'The No Asshole Rule', I guess I am on quite a safe ground.

Of course, I carefully chose the term to get your attention; and to get the critics talking. But there's deeper sense too.

Vision Vampiring therefore is all about ensuring that the vision dream of a transnational organisations is developed at every level of the organisation and spread to every link in the organisation using compelling transactions, akin to how vampires spread their clan. Vision Vampires are the individuals at every level who ensure that the vision dream is developed and spread across the organisation. Vision Vampires (call them what you may – vision supervisors, vision managers, vision coordinators, or anything that you prefer) have the sole responsibility to not only spread the vision targets throughout the global organisation at every level, but also to select individuals at each significant level of the organisation who have the competence to become Vision Vampires themselves, who in turn spread the vision to others; creating more Vision Vampires.

VISIONING (VAMPIRING) GROUPS

For ensuring vision spreads at exponential speed through a global organisation, a CEO needs a process and a structure – in simple terms, the CEO necessarily should set up Visioning Groups at every significant

level/SBU/department of the corporation. These Visioning Groups should be staffed with individuals who have the competence and capability to be future CEOs. These could be individuals who're either full time into conducting vision workshops at their levels, or these could be individuals who – apart from their functional duties – also undertake additional responsibility of being a vision spreader. Whatever they may be, in the organisation, they have to be clearly marked out – akin to how Green Belts and Black Belts are marked out. *So you need to mark out the Visioning Group Head for each level; as well as the Visioning Group Members. This gives them a sense of authority, responsibility and a level of importance amongst peers. The next chapter in this Epilogue section (on Capabilities and Competencies) gives a summary of the C2A2 model, which has been developed for implementing this visioning exercise within transnational organisations (apart from being a model for managing capabilities and competencies).*

This is where Visioning Groups at each level include link representatives from other levels who develop a relevantly different spin of what the organisation vision is all about (quite similar to what Microsoft's Advanced Technology Group does; or GE's Work-Out programme does at different levels). The Walt Disney Imagineering (WDI) teams – responsible for designing and developing Disney theme parks – are perhaps the best example of such Vision Vampiring Groups who ensure that while the corporate vision is kept in mind, a completely practicable vision target document is development at the theme park design level too! If you don't have Visioning Groups in place, start now.

VISION-INTERVENTION-EXERCISES

The compelling transactions that Visioning Groups use to spread and internalise the visionary targets at every level could range from standard workshops, meetings, one-on-one feedback sessions to specific intervention exercises attempting to recreate and regenerate vision across the organisation. But these intervention exercises need to be formally designed, planned & implemented. The firm's CEO (and his core team) should accept the role of being the key vision propagator and ensure that individual Vision Vampires & Visioning Groups are developed at various levels. But there are issues to be handled deftly.

Vision has to be defined in concrete terms at the top. The top-level vision should act as a benchmark for progress. This top-level vision could be defined using a combination of quantitative and qualitative statements.

Some organisations feel proud that their vision is created by their bottom level employees. And some feel proud that their Vision has been developed by customers. This may well be a completely wrong method. Vision Vampiring has to 'soar' from top to bottom, and from inside to outside. Vision should not be created from bottom to up. Vision should not be developed by outsiders.

Again, glorious vision statements are worth trash if they've been made without reckoning the current & future capability and competence of the organisation. Stanford's vision of being the Harvard of the West was believably backed up by its agendas toward development of capabilities and competencies. Further, the world's

best vision statement cannot get the corporation anywhere unless it is backed up by sincere strategic plans and implementation controls. Apple failed initially (and Microsoft won) because of just this: Apple had a sky-high vision; but was a ground-level flop! (Later, Apple realised this; and it served the Cupertino giant well.)

The issue of Vision Ridicule Entrapment.

But there's a problem. The moment you designate one or more individuals to be responsible for developing the vision of his corporate level/department/unit, the biggest issue that hits the individual(s) is fear of peer ridicule in case the vision thus imagined is quite beyond what was expected. Such managers would refuse to think beyond previously set boundaries and get entrapped in living up to the expectations of their corporate social group. We call it '*vision ridicule entrapment*'! But then, wasn't the very objective of Vision Vampiring breaking such predefined limits? Yes, of course, and that is why vision heads at every level need to necessarily ensure that whenever a competent individual joins the Visioning Group at any level, he has to be blasted with the message of not fearing ridicule while developing vision; else the concept of vision gets thwarted at the very outset.

It is indeed this combination of Visioning Groups at every level made up of visionaries (or Vision Vampires) from that level, who spread and implement the vision targets through Vision Intervention Exercises which creates targets that seem unachievable; and also creates structures and people who believe in achieving those seemingly unimaginable targets. Obsessively, compulsively, futuristically!

RE-VISIONING

Needless to say, Vision Vampiring is always the 'continuous' process of looking into the future. So the trick is to regularly revisit & ReVision! Question even an accepted vision statement regularly; and you've understood Vision Vampiring to a large extent.

But then, is there a workable existing model using which transnational organisations can develop, disseminate, improve and even destroy vision targets at each level? Like I mentioned, the next epilogue chapter on Capabilities and Competencies discusses the C2A2 model, that you as the CEO of a transnational organisation can immediately implement to not only manage your organisation's global capabilities and competencies, but also the concept of Vision Vampiring. The C2A2 model provides a workable, immediate process and structure map for putting your vision concept in place throughout the organisation.

Written above is the summary of one of the chapters of my previous strategy book, Power Business Strategies; for more details on strategic process and structural models that can be implemented in transnational corporations operating in various countries, please go through that book: A. Sandeep

2
CAPABILITIES & COMPETENCIES

CAPABILITY & COMPETENCE ADVANCEMENT AGENDA (C2A2)

Modern day multinational and transnational corporations should have a structured capability & competence development process in place to achieve long-term success! Presenting, the theory of it all – a benchmark model that transnational organisations can implement off-the-rack for developing capabilities and competencies

Look around – and you'll easily find a plethora of visionless CEOs of transnational organisations arbitrarily deciding which business areas should a company enter and which it should leave, without giving a glimmer of thought to whether their global organisations have the wherewithal to succeed in chosen battlefield. The astoundingly mammoth list of failed M&As is evidence

of the same. More evidence is provided by the speed with which CEOs are being eased out of their jobs – from Yahoo to Google to Tiger Airways to Wipro to RIM, from new-age to traditional industries, companies and CEOs seem to be deciding on new businesses based more on the "fools dare where..." ideology than basing the same on a logical and structured capability and competence advancement agenda. I usually write what my readers term 'light stuff' – easy on the eyes and amusing on the brain – and would have used this column to simply berate those organisations that don't have structured plans to develop competencies and would have praised those that did. But I realized that even for an organisation that in all sincerity wants to set in motion a long term plan that could match its capabilities and vision, there practically exists no 'ready made' model that one could implement straight off the board to document one's competencies. Worse, there's no telling which competence fits where and is how important for future growth!

I decided to benchmark the methodology that is followed by the best in class to match vision with strengths, goals with skills, objectives with focused training – I call it the C2A2 model; in other words, the 'Capabilities and Competencies Advancement Agenda'! Of course, the 'C2A2' term might seem pure limerick at its best, meant to invoke 'term recall' in the minds of the reader. But irrespective of the play of the term, the fact is that implementing such a competence agenda in your transnational organisation – whatever you call it, as long you have a process that does it – might just save your firm from getting decimated in the near future.

C2A2: AN IMPERATIVE FOR IMPLEMENTING STRATEGIC INTENTIONS

An imperative reason for corporations to take up the C2A2 model is the fact that immediately, the top management within the organisation is forced – or encouraged – to match their irreverent business vision (which may have been earlier propagated more due to their ego) with the competencies that are documented within the organisation. In other words, call it what you may, but even if you have documents floating around in various business of your organisation that have mapped out various strengths and weaknesses of those businesses, you're well started already. But wait, there's much more left – and that's where I hit you with the jargon.

'CAPABILITY MODULATION' IN C2A2: KNOW YOUR HARDCAPS VS. SOFTCAPS

Capabilities within any organisation should be visibly perceived in two basic forms, namely HardCaps and SoftCaps. Hard capabilities, or HardCaps, show themselves in the forms of visible 'hard' items that can be seen. For example, machinery, cash, personnel, number of patents et al, are HardCaps. Soft capabilities, or SoftCaps, show themselves up in the form of 'soft' items that cannot be necessarily seen, rather can be perceived. The backbone of any company's strategic architecture is made up of the combination of HardCaps & SoftCaps. HardCaps can be quantified. But Hard Capabilities are ruled by Soft Capabilities and this is where the problem arises. It is much difficult to maintain and understand SoftCaps. Knowledge management, process manuals,

ISO et al, are all attempts by any organisation to maintain a Hard interface on Soft Capabilities. The corollary is that SoftCaps are most difficult for competitors to replicate and hence can become the basis for extremely long sustainable competitive advantages. But a corporation cannot succeed on Soft- Caps alone. There has to be a most practicable combination of Soft Capabilities and Hard Capabilities for any company to succeed.

So how does one understand which 'Caps' is more important? And which less? And how does one know which capability does one need to develop and which to destroy? Differentiating your capabilities using the Structural Capabilities Architecture is one solution that provides the answers.

THE STRUCTURAL CAPABILITIES ARCHITECTURE

Structural Capabilities within any multinational or transnational organisation belong to four categories. Doorway, Elemental, Enrichment and Power Leadership Capabilities. Once you have categorised each and every capability under these heads, you would automatically understand which ones you need to maintain, develop and which ones you need to leave go.

DOORWAY CAPABILITIES: These are essential capacities which allow entry of the organisation into targeted businesses/markets/ industries by dissolving entry barriers. These capabilities could relate to any of the functional areas (marketing, human resources, manufacturing, finance, research & development, legal, advertising et al). For example, any corporation wishing

to enter the business of manufacturing aircraft needs to have all-encompassing financial capabilities, technology backup with respect to personnel, plant & machinery, necessary government licences, patent clarifications et al. Similarly, every industry has a set of Doorway Capabilities (Porter slantingly refers to these as Entry Barriers), which one has to obtain 'before' entering an industry. The simple corollary which most CEOs forget: if you don't have Doorway Capabilities, it makes quite less sense to enter a new industry, however attractive it might be. Ergo, first document what Doorway Capabilities are required to enter an industry, then acquire those capabilities, and subsequently enter.

ELEMENTAL CAPABILITIES: These are capacities that, after an organisation has procured the Doorway Capabilities, sustain any organisation's functioning on a day-to-day basis. When Barista took leadership of the narrow market of café sales through Barista stores all over, competitors were more moved by the glamour of it all, rather than the pure profit dynamics. Also-ran competitors did not realise that coffee parlours were not a source of industry leadership, but were rather only a source of industry survival and continuance (Elemental) capabilities. Duncans (a G. P. Goenka group company) went into setting up Barista style tea parlours in various East Indian territories with the collaboration of retail outlets like Pantaloon (Café Bollywood). At the same time, Café Coffee Day was bent on targeting the highest potential markets by opening up coffee parlours all over India. Even though Nestle also has Café Nescafe outlets all across relevant markets, Nestlé is the leader in the

overall coffee segment (with HUL following in at second rank) not because of Café Nescafe coffee parlours, but thoroughly because of the focus on converting traditional supply chain channels (institutional sales, vending machines, retail sales et al) into 'Enrichment capabilities' (definition on next page). Nestle & HUL have clearly realised that in this industry, the maximum sales growth can occur only through leadership in traditional channels, rather than through fashionable outlets.

But wait, there are two groups of Elemental Capabilities – Pure & Derived.

Derived Elemental Capabilities are those that are continuations & combinations of improved Doorway Capabilities. For example, for an automobile manufacturer, having a plant is a Doorway Capability, but continuing production in the plant is an Elemental Capability derived from already existing Doorway Capabilities like the plant, personnel, electricity availability etc. The fact that Maruti Suzuki India Limited's plant in Manesar (Gurgaon), rolls out the maximum number of vehicles per day (1200 units, as of September, 2011) and has been attaining similar benchmarks for the past 14 years (since it started) is a brilliant example of excelling at attaining derived elemental capabilities. Setting up marketing channels are invaluable Doorway Capabilities for retail corporations to start operations; maintaining these marketing channels using a combination of Doorway Capabilities like sales personnel, dealer network, and transportation et al, is a Derived Elemental Capability. Globally, Walmart is an example of this.

The other group of Elemental Capabilities is known as

Pure Elemental Capabilities. These are capabilities that have not been derived from Doorway Capabilities but have been developed or acquired anew. Having detailed customer query handling processes, in spite of not being Doorway Capabilities, are essential for almost all airlines and computer selling organisations for able day-to-day customer relationship management, thus becoming Pure Elemental Capabilities that should be acquired & developed by any computer organisation. Virgin Atlantic's customer relationship management programme, being currently handled by loyalty marketing specialists ICLP (which also works with airline group Star Alliance and for several carriers like Cathay Pacific, Air New Zealand and Qatar Airways) is an example.

ENRICHMENT CAPABILITIES: Any capability that provides the basis for growth over and above the current standards of the organisation is known as an Enrichment Capability. Enrichment Capabilities are not about gaining leadership in the industry, neither are they about obtaining competitive advantage. Rather they are about gaining absolute growth in areas that are critical to the organisation. Jet Airways entered the Indian market in May 1993, and has since then, carried millions of passengers. Since the start of its operation, Jet was clinically involved with a radical focus on improvement of structural capabilities. It continuously attempted to upgrade the most critical structural capability, namely the aircraft fleet. In 2003, Jet Airways started with an operational fleet of 34 Boeing 737s and 8 ATR72-500 aircraft. Since then the airline has earned a reputation for "constantly maintaining its average fleet age below 10

years", which is characterised by frequent phasing out of aircraft that exceed 10 years of age. As of May 2011, the average age of the airline's fleet stood at just 5.4 years – the lowest in the industry! Today, the airline's total fleet of 97 aircraft consists of 12 A330s, 55 B737s, 10 B777s and 20 ATR72s. Aircraft are nothing but Enrichment Capabilities for Jet, as growth of the airline increases with the number of aircraft acquired by Jet, ceteris paribus. In fact, today, despite not being at the top in terms of the number of aircraft in their fleet, Jet Airways has the largest market share of 25.5% (June 2011) and is the only profitable FSC (with a positive bottomline of Rs.96.9 million during FY2010-11) in the domestic market.

But wait. Even Enrichment Capabilities can be pure or derived.

The capabilities that have been derived from Elemental Capabilities are known as Derived Enrichment Capabilities. For example, a food services organisation might believe after research and inference that improvement of the marketing channel reach might result in improvement of its market share. In this case, the organisation would attempt to Derive Enrichment Capabilities from the already existing Elemental Capabilities by combining factors like PR campaigns, advertising et al. The food services organisation might replicate this combination of its Elemental Capabilities in expanding marketing channels to other geographic regions, thus providing the much needed growth. For an automobile manufacturer, having a plant is a Doorway Capability, continuing production in the plant is an Elemental Capability, but improving production process efficiencies in order to be

more cost effective are Derived Enrichment Capabilities. The other group of Enrichment Capabilities is known as Pure Enrichment Capabilities. These are capabilities that have not been derived from previous Capabilities but have been developed or acquired anew. Capability processes covering PR, market scanning & research, training & development, technology & capital asset acquisitions, research & development are all examples of capabilities that can take the form of Pure Enrichment Capabilities if directly acquired or taken over from the external environment. Brand takeovers, joint ventures, plant acquisitions, marketing channel purchases are all examples of Pure Enrichment Capabilities.

POWER LEADERSHIP CAPABILITIES (OR COMPETENCIES): Capabilities that provide the basis for gaining leadership and sustainable competitive advantages in various industries and markets – those that give you Power Brands too – are known as Power Leadership Capabilities or Competencies. This set is what a company should strive to maintain.

For example, becoming the lowest cost manufacturer in any industry could be a direct result of a previous Enrichment capability of cost effective manufacturing becoming extremely superior to those of competitors. Do not forget that this 'cost effective manufacturing' must have been obtained after combining various Elemental Capabilities like relevant training of personnel, process improvements & IT systems integration being refined to the highest degree and thus becoming a reason for industry leadership (see chart on previous page for progression). But this can be bought in one straight shot too!

Yes, Power Leadership Capabilities can also be obtained without necessarily going through the progression of organic development of capabilities. M&As are typical examples of how companies attempt in one go to gain Power Leadership Capabilities external to the organisation by taking over targeted companies that have critical and strategically important assets, products, brands, structures and processes. But given the ever-present risk within M&As, it's better (but not necessary) if Power Leadership Capabilities are developed organically within the organisation.

At this stage, it would be easy to get confused into a notion. The readers might presume (as in many schools of thought) that any transnational organizational structure should have Power Leadership Capabilities at the top of the organization and as we go below the organization structure, that the lowest levels of the organization should have Doorway Capabilities. Well, not quite. At every critical identifiable level of any organization, one should develop a sub-structure of Doorway, Elemental, Enrichment and Power Leadership Capabilities. The concept of MetaSBU development in the next chapter in this Epilogue discusses this issue of how various sub-levels can be developed in an organization, each with the potential of finally becoming a Power Leader in itself.

But then, and most importantly, no Structural Capability (both hard and soft) can be managed in a worldwide organisation without Consequent Capabilities. In other words, that you have a global distribution channel is of no 'consequence' unless you have a process to manage it, question it, and improve it or even destroy it.

Conceptually, while the structural capability model I have given provides you a model to classify your capabilities, the consequent capabilities architecture gives you a model to exploit those capabilities. Below, I've given a summary of the consequent capabilities architecture. For a deeper understanding of the same, you will have to necessarily go through my previous strategy book, Power Business Strategies.

CONSEQUENT CAPABILITIES ARCHITECTURE

Consequent Capabilities are named such because the nature of their existence is consequent to the nature of the main structural capabilities. But the most important aspect of them all, as has been mentioned above, is the fact that Structural Capabilities exist and improve or get discraded only because of Consequent Capabilities. Structural Capabilities are the display & end result of the power and efforts of Consequent Capabilities. Different types of Consequent Capabilities identify the need for Structural Capabilities, refine their efficiencies and effectiveness, remodel their alignments with overall corporate structures and processes, and finally ensure that the organization becomes the most intelligent corporate animal that responds demandingly & profitably to all that the environment has to offer.

The existence of Consequent Capabilities runs parallel to the main operational line of structural capabilities. That is, while the continuum from Doorway capabilities to Power Leadership Capabilities focuses on competitive requirements (developing, improving, sustaining,

or discarding competitive leadership), Consequent Capabilities focus on development perspectives (developing, improving, sustaining or discarding Structural Capabilities leadership). Consequent Capability Units (comprising of respective managers and team members) are of four types:

LEARNING CAPABILITY UNITS (LC UNITS)

These units are made up of teams that are associated with all other Consequent Capability Units (Transformation, Fortification and Exnovation) at all levels and have two prime responsibilities; (1) Documenting processes, structures, organizational initiatives, goals, objectives at various discernible levels. (2) Developing a sharing network that enables all levels in the organization to learn from the best practices, structures and initiatives of various Capability Units by initiating Consequent Capability Architecture intervention programmes aimed at educating, teaching, disseminating knowledge, information and data.

EXNOVATION CAPABILITY UNITS (EC UNITS)

Exnovation is literally defined as the opposite of Innovation (read chapter 5 in Section 2 on Quality & Six Sigma to understand examples of Exnovation). Exnovation Capability Units are meant to monitor anomalies in organizational functioning and rectify them. EC Units are dedicated capability units that ensure Exnovation of aberrations to the strategic architecture and initiatives being undertaken by the organization. Recent lessons in Corporate Non-Governance (Reliant, Dynergy, Enron, Andersen, Tyco…) have ensured the rising importance of EC Units in organizations. Presence

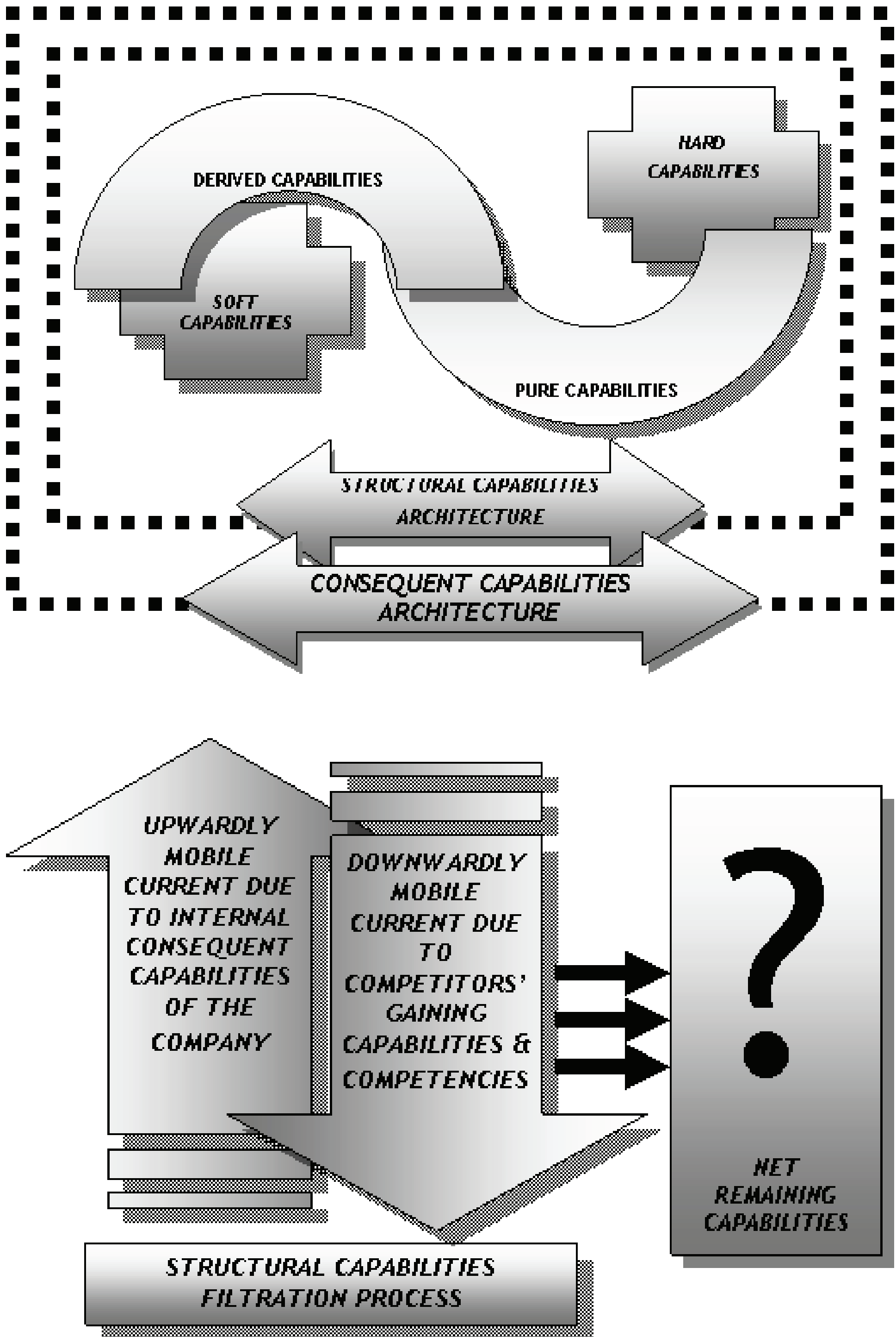
of Exnovation Capability Units is akin to presence of anti-bodies in human bodies in more ways than one. EC Units are dynamic in nature, both in size and their project requirements.

FORTIFICATION CAPABILITY UNITS (FC UNITS):

Fortification Capability Units are meant to continuously identify better processes and structures to achieve the predefined results. FC Units are capability units that ensure continuous improvements to the strategic architecture and processes being undertaken by the organization at various levels. FC Units do not question the results to be achieved. They rather find out better methodologies of achieving the results. In traditional terms, FC Units attempt to be effective (doing the right things), while EC Units attempt to be efficient (doing things right). At each critical level of the organization, FC Units in organizations should be structurally above EC Units because FC Units dictate what optimal processes and structures should be present. EC Units ensure that the processes and strategic architecture laid out by FC Units is followed to the book. Presence of Fortification Capability Units at every level is another method of achieving process improvement at all such levels.

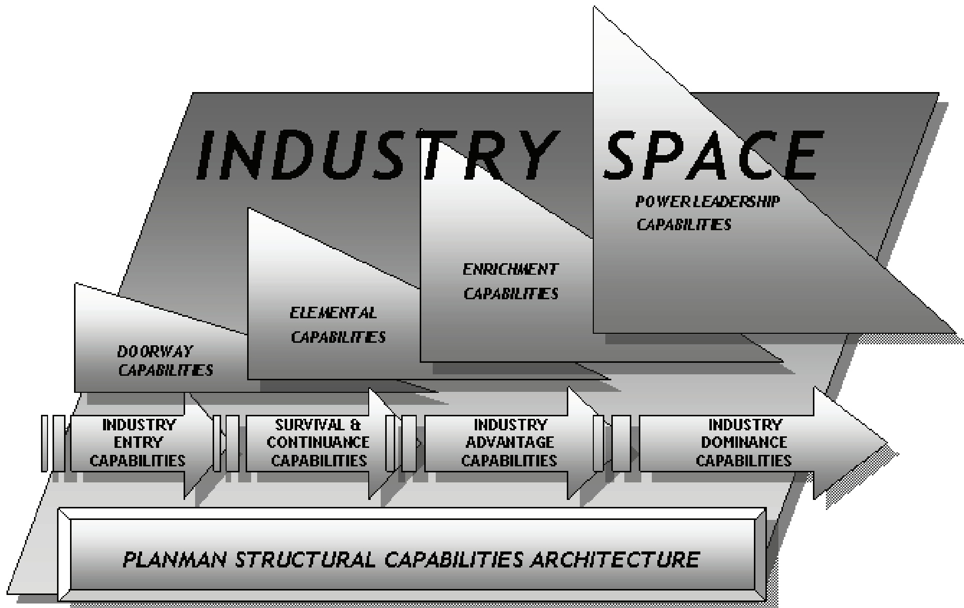
TRANSFORMATION CAPABILITY UNITS (TC UNITS)

In the order of hierarchy, Transformation Capability Units at each level of the organization are above the Fortification Capability Units (who in turn are above the Exnovation Units). Transformation Capability Units are meant to continuously question and re-question not


DERIVED CAPABILITIES
HARD CAPABILITIES
SOFT CAPABILITIES
PURE CAPABILITIES
STRUCTURAL CAPABILITIES ARCHITECTURE
CONSEQUENT CAPABILITIES ARCHITECTURE
UPWARDLY MOBILE CURRENT DUE TO INTERNAL CONSEQUENT CAPABILITIES OF THE COMPANY
DOWNWARDLY MOBILE CURRENT DUE TO COMPETITORS' GAINING CAPABILITIES & COMPETENCIES
?
NET REMAINING CAPABILITIES
STRUCTURAL CAPABILITIES FILTRATION PROCESS

only the objective orientations of various levels of the organization, but also the need for the levels themselves. For example, a Transformation Capability Unit in the manufacturing plant of an organization not only would decide what should be the manufacturing benchmarks & objectives with respect to various parameters, but also would decide whether the manufacturing plant should be allowed to continue or not. Once the TC Unit decides on the worth of continuing the complete manufacturing plant, and once the TC Unit decides on the objectives that are worthwhile for the manufacturing plant to undertake, the Fortification Capability Unit takes over to design processes by which the plant would undertake the various objectives; and the Exnovation Capability Unit takes over later to ensure that the processes so designed by the Fortification Capability Unit are adhered to perfectly.

The concept of Vision Vampiring in transnational



organisations is also undertaken using the architecture of Structural and Consequent Capabilities.

What I've attempted in this massively theoretical epilogue chapter is to tell you – the CEO – that the first step to becoming a world class organistion setting superlative benchmarks, is documenting a plan to know, maintain, develop and even destroy your capabilities and competencies. And if you had no idea how to prepare that document, just blindly implement what I've presented here – and keep sending me the royalty.

Like I mentioned earlier, written above is the summary of one of the chapters of my previous strategy book, Power Business Strategies; for more details on strategic process and structural models that can be implemented in transnational corporations operating in various countries, please go through that book: A. Sandeep

3
META SBUs

THE METASBU DEFINED

While Chapter 9 in Section 2 in this book simply talked about whether we should combine same business SBUs or not (and the final analysis was that we should combine same-business SBUs when they gain enough experience and become very large), in this epilogue, I bring you face to face with the structure that is the optimal one for transnational and global corporations.

Or in simple terms, Meta-Strategic Business Units for transnational or global corporations. MetaSBUs are marketable bunches of functional & sub-functional units of processes and structures that have been converted into following virtual SBU concepts & philosophies due to highly refined capabilities (both Hard Capabilities

and/or Soft Capabilities) coming to the fore. Taking the example of one level, this would mean that within any SBU, various functional units like marketing, production, human resources, systems etc behave like independent outsourcing vendors providing services to the main corporation. This strategy of MetaSBU conversion has to be through a transition stage where promising bunches of processes & structures have to be first made into virtual MetaSBUs and later on hived off as independent MetaSBUs.

THE METASBUCORP DEFINED

A MetaSBUCorp would be a transnational organization that, instead of having business oriented SBUs, is divided into various MetaSBU functional units. In other words, into Structural Capabilities oriented MetaSBUs. A MetaSBUCorp would be a mix of various MetaSBUs, each one being based on one or more of highly refined and marketable Structural Capabilities (Power Leadership till Doorway) preferably along Value Chains that flow from the top to lower levels in the organization. That is, each Value Chain should have its own distinct MetaSBUs. Thus, a MetaSBUCorp, instead of being an organization with divisions depending on each other, should actually be a combination of MetaSBU businesses doing business and earning from not only other internal MetaSBUs, but also from external corporations.

THE META-SBU VALUE CHAIN

Every MetaSBUCorp structure can now be perceived to be made up of various Value Chains. Each level in

various Value Chains making up the MetaSBUCorp is made up of Structural Capabilities (Power Leadership, Enrichment, Elemental and Doorway) and is controlled by Consequent Capability Units (Transformation, Fortification, Exnovation, Learning) that ensure that consistent value through each process and each structure is being added as the Chain flows across. Each MetaSBUCorp level where processes & structures (basically capabilities and competencies) can be clubbed into Marketable Business Units, one can and should develop what we have termed Meta-SBUs; or MetaSBUs (Meta-SBU-Lower-Architecture) Units.

Generally, the top level in every MetaSBU is more involved with 'taking' decisions and the lower levels are more involved with 'implementing' decisions. Within every distinctly separate MetaSBU, It is necessary to realize that the need for maximizing shareholders' wealth is at its peak with the Transformation Capability Units of the MetaSBU as they are in direct contact with their superior TC Units who finally are in contact with the Board of Directors and Shareholders; while the need for achieving the lesser incidental objectives (that is, achieving targets, improving customer quality etc) gets more and more important as we move towards the implementation levels (from Fortification to Exnovation Capability Units). It can be said that as one moves along the ladder within such MetaSBUs, strategic management moves as a wave from 'thinking' strategic management (or Transformation), to 'implementing' strategic management (or Exnovation). In other words, the Wave includes the transformation guys who 'dream', 'self-actualize', 'question the existence of

the various businesses of the organization', 'transform the organization', while the exnovating guys 'do-the-do', 'focus on efficiency', 'are more worried about Key Performance Areas'. I call this the TRansformation to EXnovation (T-REX) Wave. More often, while the top management should be motivated to support transformational activities, the lower levels should actually be forced to exnovate! They should be taught how not to be creative, how not to give unsolicited feedback, how not to attempt to improve processes and so on. Then what about the learning we've learnt since so long that creativity should be encouraged at all levels of the organization. Don't do it! That's because unless this forcible exnovation is not attempted, lack of standardization across a company's branches and uncontrolled and unstructured innovation encouragement can by a dynamite disaster in waiting! Such activities should be encouraged only for specialist teams. If quality has to be improved in some circle, have a specialist team set up that would undertake the necessary research and get feedback from necessary people. If products have to be improved, the Sales Executive should be strictly prohibited from attempting the same; even if customers are closest in contact with the Sales people. Efficient market research teams should be set up that then take the feedback from sales and marketing departments to achieve the necessary objective. Thus the name of the game is structuring progress, and not encouraging demolition. Every MetaSBU worth its shareholders' money should optimally generate non-conflicting, sustainable & profitable T-REX Waves that contribute to maximizing shareholders' wealth.

T-REX WAVES

T-REX Waves can be thought of as being similar to the circular waves generated in a quite lake when a stone is dropped inside the lake. The lake is a metaphor for the industry or market that the MetaSBU is trying to attack. The stone is the product or service with which the customers are being delighted. The weight of the stone represents the intrinsic strength of the product or service offering. The water in the lake represents the customers whom the MetaSBU is trying to delight by displacing them to the maximum from their current state when the stone is dropped. The height of the waves is the extent to which the customers are delighted. The distance to which the waves travel is the customer reach of the product or service offering beyond that of core targeted markets.

When the transnational organization wishes to drop their stone in the lake, they should research and find out the deepest part of the lake because the effect of water displacement would be maximized if the stone were to be dropped in that deepest part. Similarly, a MetaSBU should search out those markets in any industry that contain the highest net-worth customers for their products and services before positioning the same in the customers' minds and then throwing in the offering. Look around within transnational firms and you'll see examples occurring. From IT departments (that have mastered some technical programme implementation – SAP, cloud computing, et al – and are selling their services to outside corporations) to production plants (that are manufacturing goods for even competitors),

from recruitment divisions (which are now 'selling' their services to outside corporations) to even CEOs (some who are managing more than one company), the world's leading transnational organisations are slowly mastering this Meta-SBU format.

If one could imagine that there were just one stone that is dropped inside the lake (that is, if the organization consists of just one business), then the T-REX Waves that are generated in the lake are concentric in nature and do not necessarily dash against each other (that is, are not dysfunctional or interfering with each other). The waves travel from inside (of the core targeted markets) to outside (to peripheral markets and non-core customers), and decrease in size as they move out more and more from the centre (that is, non-core and peripheral customers are delighted lesser than core customers as the positioning was not targeted at them anyway). The intensity of waves (height + distance travelled) is directly proportional to the deepness of the lake at the point where the stone is dropped (net size & worth of targeted consumer markets), weight of the stone (intrinsic product or service strength) and the force with which it is dropped within the lake (using business capabilities, competencies and implementation correctness).

But the above example assumes not only that the MetaSBU is offering a single offering, but also that no other company is trying to offer and product or service to the same target market. A utopian scenario! In reality, there are various competitors trying to throw in various stones into the lake at various places. Some throw in stones all around the lake (mass marketing), some throw in stones

at distinct focused spots in the lake (niche & targeted marketing), some buy stones from other companies and then throw them in (outsourcing), some sell their stones to other stone throwers (original equipment manufacturers), some threaten to throw in unseen stones claiming to be better and bigger (vapourware marketing by potential entrants), some buy over other stone manufacturers (mergers & acquisitions), some stop throwing stones (exit the industry), some of them run out of stones (file for bankruptcy & insolvency), some try to get back thrown stones (faulty products recall), some teach others how to throw stones (consultants), some deliberately miss the water and throw stones at the competitors (hostile advertising, guerrilla marketing) and the beat goes on.

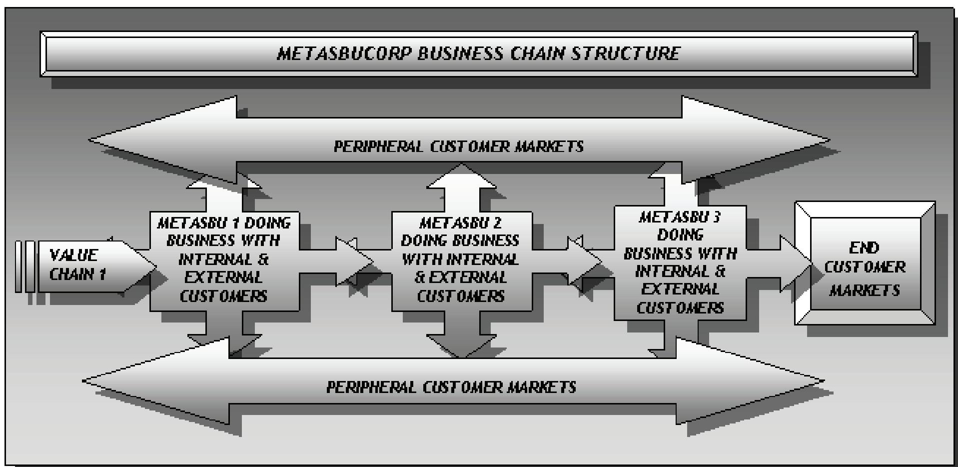
Now if one can imagine these various stones being thrown on the lake at the same time, it is quite obvious that various waves would be generated by these stones being thrown on the surface of the lake. Using laws of Physics, one can safely forecast that these various waves would necessarily dash against each other, a few cancelling each other out to some extent, some adding to the other waves' intensity; the end result being unstructured and less than optimal displacement of customers by the company's offerings in the targeted markets. In such a competitive scenario, the organization (MetaSBUCorp) should have a critical focus on generating T-REX Waves within each MetaSBU that proactively utilize to their advantage the conflict with and interference from competing T-REX Waves of other organizations' business units. Most importantly, within the businesses of the same company, the organization should at least

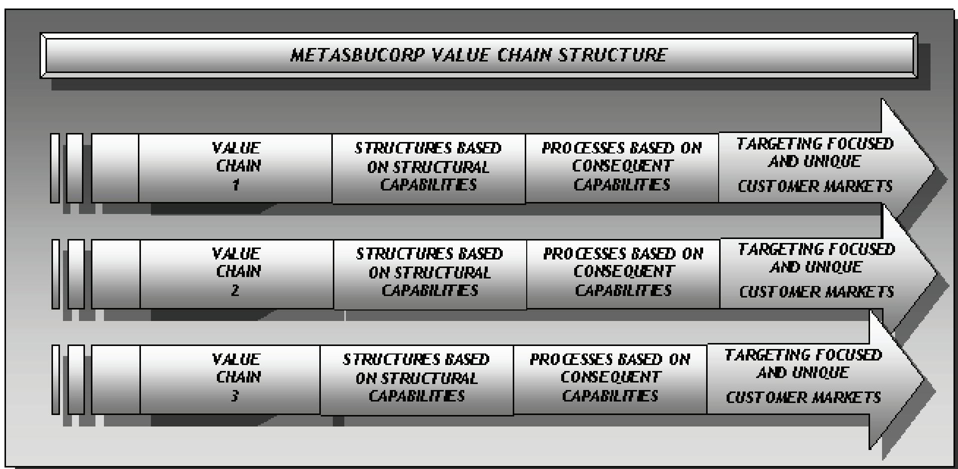
ensure that the T-REX Waves being generated by one business unit within the organization should not have destructive, but only constructive interference from T-REX Waves being generated by other business units of the same organization. This means that when different businesses of the same organization are offering products or services to similar industries and markets, the basis of allowing or disallowing conflict and competition amongst these business units should be shareholders' wealth maximization.

Therefore, the MetaSBUCorp should be optimally made up of various Value Chains; each Value Chain being made up of various processes & structures (P&S) along the Value Chain; each bunch of P&S made up of combinations of Power Leadership, Enrichment, Elemental, Doorway capabilities and competencies; hard & soft, as well as pure & derived. The Consequent Capabilities Architecture is the topmost method to control & support T-REX Wave generation within organizations. Even though a MetaSBUCorp might have various Value Chains flowing from top to bottom, bunches of processes & structures (that have a promise of becoming future MetaSBUs) should preferably be focused on particular Value Chains for optimal capability and competence enhancement.

For example, a company like Sony Corporation is into various businesses and has various Value Chains running across the length of the organization; each business functioning under a separate Value Chain. One particularly important Value Chain is their Consumer Electronics Value Chain. Another important Value Chain

that flows from top to lower levels of Sony is their Films production & distribution Value Chain. If one looks at the Marketing function, Sony would prefer having a separate Marketing function for its Films production & distribution Value Chain and a separate Marketing function for its consumer electronics Value Chain. Columbia Tri-Star is the Marketing MetaSBU for Sony's films Value Chain while Sony Corporation maintains its own separate Marketing MetaSBU for handling





its consumer electronics Value Chain. Columbia Tri-Star, now being a typical Marketing MetaSBU, markets not only Sony's films worldwide, but also the films of external film companies, both at a global and a local level. Planman Motion Pictures (the Entertainment MetaSBU of Planman Consulting; winner of three National Awards till date in the last five years) produced an Indian regional language movie that won various awards at film festivals globally & nationally. Columbia Tri-Star entered into an agreement with Planman Life to market and distribute the film all across India. So did Disney, with one of Planman Motion Pictures movies.

However, wherever MetaSBUs are not restricted by requirement of distinct competencies and capabilities to succeed within separate Value Chains, the same MetaSBU can be allowed to develop in multiple Value Chains and also to provide services to external corporations. For example, General Electric allows Recruitment MetaSBUs to each handle recruitment functions in more than one Value Chains at the same time; apart from allowing external Recruitment MetaSBU to support its recruitment processes and structures across Value Chains.

Is the MetaSBU concept the same as transfer-pricing?

Transfer-pricing mechanisms intend to provide a basis for internal valuation of various processes. These mechanisms are not principally focused on making separate businesses out of each function. The MetaSBU concept goes much beyond and utilizes industry benchmarks before providing a future path for visionary organizational restructuring mechanisms to be put in place. MetaSBUtion is about making businesses out of

each set of commonly identifiable processes, rather than just about having an accounting mechanism to identify worth of internal functions.

Written above is the summary of one of the chapters of my previous strategy book, Power Business Strategies; for more details on strategic process and structural models that can be implemented in transnational corporations operating in various countries, please go through that book: A. Sandeep

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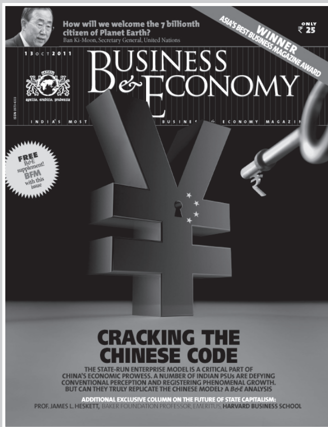

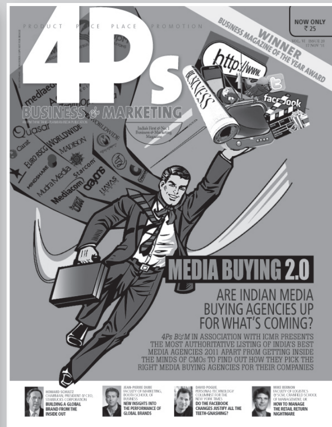

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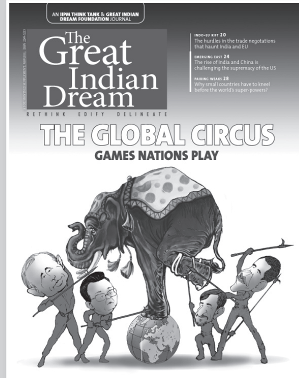

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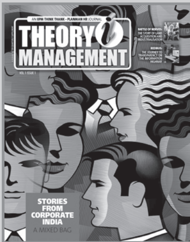
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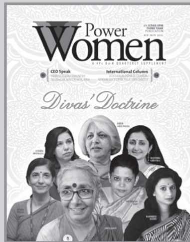
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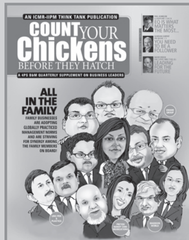
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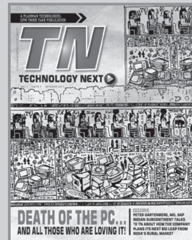
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