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People-Centric Science
An Interview With
Christian F. Thomsen
Chief Executive, Novartis
**Prognostications. Resolutions.** Then, the inevitable procrastination. Yes, it’s a new decade, the second of the new millennium, and with it come mind-numbing and never-to-be-realized predictions, just like ten years ago.

Remember Y2K? Why can’t people really see into the future? The last decade, which turned out not to be lost, had it all — Twitter, Tiger, tragedy, triumph and titans. The emerging markets finally emerged. And, regrettably, we were reminded of mankind’s darker side with 9/11 in New York and 26/11 in Mumbai.

Now, the rush toward 2020. By the way, I would say that year as “twenty-twenty,” not “two thousand and twenty”; it’s more in line with every leader’s dream — perfect vision. What’s in store for us in the new decade? More frothy bubbles? Another Champagne Decade? The continued obliteration of conspicuous spending? The answer to these questions may come from an unusual source — my kids.

What do I mean by that? I mean that the way they absorb, comprehend and communicate foretells the future. The smartphone — an oxymoron a half generation ago — is now simultaneously your clock, your source of news and yes, your addiction. (Are 2,540 texts too much in a month for my overly nimble-fingered 17-year-old daughter?) “Googlized” gadgets, i-this and i-that are game-changers.

A few months ago, I began reading newspapers and books on a Kindle. Like a comet falling from the sky, that gadget has now lost its luster, outmoded by my smartphone since I can now surf, text and talk on my latest device. I am irrevocably and totally plugged-in — thanks to my information-ravenous children.

But, what’s going on is really not about the latest personal technological toy. It’s about product generations shrinking from decades (Anyone remember the telegram? Encyclopedia? The threec-a-day office mail runs? The fax machine? Desktop computers? Network television?) to years and now to months. And that changes everything. The speed of change will continue to accelerate and will do so dramatically.

Because change and innovation are so prevalent, almost everything will be consigned to obsolescence. If the coming decade is given a name, my guess is it will be called the decade of innovation, for only the innovators will survive.

One innovator featured in this issue of the Korn/Ferry Institute’s Briefings on Talent & Leadership is Daniel Vasella, chairman and chief executive of Novartis, the world’s third-largest pharmaceutical firm. In his interview, Vasella said the most important variable in the new decade of innovation will be people — their needs, desires and wants. The future, as Vasella sees it, will be a marriage of science and humanity about which he is “scientifically optimistic.”

In “Singapore Bets Big on Talent,” the theme of the importance of meeting the needs of human capital is further explored. The article profiles Philip Yeo, a tireless Singaporean who has drawn scientists from all over the world to transform Singapore into a biotech superpower. By bringing together Nobel Prize winners, chaired professors and their laboratory teams, Yeo has made a wager that the coming decade will be more dependent upon the fruits of mind than of labor.

People make a difference, even on the World Wide Web. Tony Hsieh, the colorful, 36-year-old entrepreneur behind Zappos, an innovative, Web-based shoe retailer, has made the phrase “Deliver ‘Wow!’ through service” into the first of Zappos’ 10 corporate values. Whereas delivering Wow! might not be a strategy in the traditional sense, it is a strategy now, at the dawn of the decade of innovation. “Zappos Races Ahead” reveals that Hsieh’s formula for web-enabled success relies not on technical breakthroughs but on service innovations.

Because people matter, succession is more important than ever. In this issue of Briefings, we present a case study called “How Yahoo Changed the Guard.” This article chronicles how an old-line technology company — Yahoo is 15 years old this year — hired Carol Bartz as its new CEO. Bartz, who turned around and professionalized Autodesk, a maker of software, knew the leaders at Yahoo from Silicon Valley boards. Harvard Professor Joseph L. Bower, one of the case respondents, indicates that it is the companies that are very strong, that have had steady profits and that are under control that have done a good job of managing for succession. Among companies in those circumstances, “some number of them really do invest in talent and the process of succession,” Bower explained. “The rest of them just scramble.”

I hope you enjoy this issue of Briefings and find it food for thought. Its content is also available at http://www.kornferrybriefings.com. Our aim with this issue is not just to make you think, but to help you decide what to think about. Read quickly, as this thinking too will become obsolete. By the way, the reason man can not see the future? Because he wouldn’t want to. Onward, to the new decade and the Year of the real Tiger! — Gary Burnison, chief executive, Korn/Ferry International
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When reality and assumptions collide, which wins?

BY JOEL KURTZMAN
Since taking office a year ago, the Obama administration and much of Congress have signaled their intention to increase oversight not only of the banking and finance sectors, but of such industries as health care, automotive and energy. Similarly, most European nations have followed the example of British Prime Minister Gordon Brown, who, as part of his country’s financial rescue plan, insisted upon government ownership of a major share of the participating banks and restrictions on executive compensation and shareholder dividend policies.

Aside from the anticipated oversight stemming from the financial crisis, a variety of policy issues already confront corporations. A review of proxy statements offers examples: General Motors shareholders put forward proposals in 2008 regarding national health care reform and adoption of a corporate plan to reduce total greenhouse gas emissions from company products and operations; Microsoft shareholders proposed requiring management to institute policies to protect access to the Internet and also sought to establish a separate board committee on human rights; Boeing shareholders also proposed health care reform and initiatives related to human rights.

Given these pressures, says Olson, boards that take the innovative step of bringing in directors who are savvy about public policy will be rewarded with an enhanced risk management capability and a deeper understanding of the dynamic between business and government — a dynamic that is very much still evolving.

Olson, who also heads Korn/Ferry’s Government Affairs Practice, presented his analysis in a 2009 Korn/Ferry Institute paper, “A New Breed of Director Emerges as Public Policy Enters the Boardroom.” The paper includes corroborating insights from a variety of influential players.

“The whole question of how much intrusion and regulation is appropriate is under discussion,” says Kenneth M. Duberstein, chairman and CEO of The Duberstein Group and the former chief of staff to President Ronald Reagan. “Obviously, it’s not zero.”

As that discussion unfolds, having former government legislators and administrators like Duberstein in the boardroom will be an invaluable asset in both shaping the debate and managing its outcomes. Duberstein currently serves on the boards of Boeing, ConocoPhillips, Mack-Cali Realty and The Travelers.

Managing the interplay between business decisions and social policy will require exactly the kind of consensus-building style that former legislators and administrators
can bring to the table. “The politics of governance have entered the boardroom,” says John Castellani, president of the Business Roundtable. “Understanding regulations and management of the proxy process, as well as having the ability to withstand the heat of politics, are skills boards can really use.”

Olson reports that board selectors had seemingly begun to recognize this new leadership mandate even before the recent financial upheaval. An internal analysis of Korn/Ferry’s Global Board Services (GBS) proprietary database containing research on more than 20,000 executives reveals that over the last decade the number of directors with prior government experience sitting on Fortune 1000 boards increased by nearly 16% — including people like former Missouri Congressman Richard Gephardt (who sits on several boards, including that of US Steel and Ford), former Clinton White House chief of staff Erskine Bowles (Morgan Stanley) and the former chair of Clinton’s National Economic Council, Laura D’Andrea Tyson (Morgan Stanley, AT&T and Eastman Kodak).

Given the current environment, says Olson, nominating committees will no doubt continue to find it useful to broaden their searches to include such individuals. And that’s not only because their understanding of legislative and regulatory processes may be exactly what corporations need to map today’s effective strategies, but also because they offer a relatively untapped pool of talent in an increasingly constrained environment. While traditional director candidates, such as former C-suite occupants, bring the necessary broad background to the director’s job, they are difficult to recruit because board membership is time consuming and, since the passage of the Sarbanes-Oxley legislation, many boards now restrict the number of directorships their CEO may hold or prohibit such service altogether. The pool of director candidates with legal, accounting and other credentials is further limited because more stringent conflict-of-interest policies prevent directors from serving if they are employed by professional services firms that do business with the company.

With any director from a non-traditional background, however, there is a learning curve. “A director who has never been embedded in a business will not yet have a developed business instinct,” notes Constance Horner, former assistant to President George H.W. Bush, who is now lead director at Pfizer, as well as a director of Prudential Financial and Ingersoll Rand. Non-traditional directors will need to become more conversant with finance and accounting practices, as well as gain a better understanding of line operations, something they do not encounter in the public sector where their work is less bottom-line oriented. In addition, they will need to make decisions in a new environment. Horner notes that in government work you have an advantage in that generally you know your opponents: “They’ve come to talk with you. They speak to you through the news media or political allies. In the private sector, though, that’s not the case.”

To that point, Business Roundtable’s Castellani notes that corporations are addressing learning curve issues with a variety of efforts to improve the business literacy of non-traditional directors because they recognize the value of the perspective such directors bring to the table. “What’s happened has intensified the scrutiny on boards,” says Castellani. “If there is anything we’ve learned it’s that boards need to be more diligent and more skeptical on risk management issues.”

The only way to accomplish that, Olson’s work suggests, is for the composition of those boards to reflect the broad nature and complexity of the problems they now face.
At least that’s the narrative being pro-mulgated in the age of short adoption cycles and shorter attention spans. And, despite its froth, much of it is true — or at least potentially true. But the question of how these technologies can actually be useful is often conveniently begged by companies and executives in a rush not to be left behind.

“Too many times, especially when it comes to social media and technology, businesses flock to the hot new trend or the shiny new object with delusions of grandeur,” says Jason Falls, social media strategist and principal of Social Media LLC. “Two years ago, clients would come to me and say, ‘I want a blog.’ Today, they say, ‘I want a Facebook page,’ or ‘I want a Twitter account.’ My answer has always been the same: Why? Seldom can they answer that question.”

So far, most business usage of social media has been at the enterprise level, in marketing, sales, customer service, public relations and internal communications. Although many early adopters have been newer, more nimble and more Web-based firms, many larger, more established companies — like Intel, H&R Block, Southwest Airlines, Cisco and Whole Foods — have been right behind them.

At this point, most of the principals and senior executives who sing the praises of social media as an individual leadership tool also tend to be from companies indigenous to the social media landscape, such as Zappos.com, Digg, Pitch Engine, Buzzillions.com and Lexblog. But many more are beginning to experiment or at least to wonder whether and how they should be more connected — and to whom.

From a purely statistical perspective, social media usage continues to grow. According to Web analytics company Compete.com, Twitter’s meteoric rise reached 23.5 million users in October 2009 and has leveled off since, prompting some negative buzz. But Twitter’s traffic was still up nearly 600% for the year. Also in October, Facebook usage

**UNEMPLOYED? TRY FUNEMPLOYED!**

The economic meltdown has produced a new subset of the population — the “funemployed” — defined by Urban Dictionary as “a person who takes advantage of being out of a job to have the time of their life. I spent all day Tuesday at the pool; funemployment rocks!” Source: LA Times, 2009
was up 3.5% to 129 million visitors, LinkedIn up 3.29% to 15.5 million and YouTube up 0.72% to 84.6 million. In what might represent the beginnings of a bit of consolidation, usage was down slightly for both MySpace and Flickr (photo sharing).

There have been few, if any, large-sample studies done about how social media are being used, especially within the enterprise and most especially with the C-suite. One study that comes close to filling that bill is from Gartner, the technology research and advisory firm that annually produces a report it calls its “Hype Cycle for Emerging Technologies.” At 55 pages, the most recent report (released in July 2009) provides a broadly based but case-driven perspective across industries on the technologies and trends that IT managers should consider including in their portfolios.

Gartner’s Hype Cycle characterizes the typical progression of an emerging technology through five phases. It begins with a “technology trigger,” when proof-of-concept and media interest trigger significant publicity, and leads next to the “peak of inflated expectations,” when some early adopters experience conspicuous success, but failures also begin to get public attention. A decline into the “trough of disillusionment” follows, as implementations increasingly fail to deliver and companies in the space begin to shake out. There follows a slow rise up the “slope of enlightenment,” as the technology becomes better understood and second- and third-generation products begin to appear. Finally, a “plateau of productivity” is reached as mainstream adoption starts to take off and criteria for assessing provider viability are more clearly defined.

According to Jackie Fenn, Gartner vice president and one of the authors of the 2009 report, despite evidence of growing experimentation and broader adoption, “social software and microblogging sites such as Twitter have tipped over the peak and will soon experience disillusionment among enterprise users.” This, the report says, is in part because of channel pollution — that is, the beneficial effects of having exponential
conversations are to some degree being cancelled out by the exponential increase in the noise and nonsense that has to be filtered out. This is to be expected from a tool that was originally designed for collaboration among mobile work groups of fewer than 10 members.

Still, the report predicts that in one year, microblogging will be a standard feature in 80% of the social software platforms on the market and is earning its place alongside such other channels as e-mail, blogging and wikis as an enabler of new kinds of fast, easy-to-assimilate exchanges.

“You have to be careful when interpreting the hype and disillusionment part of the cycle as a negative,” says Jordan Frank, vice president of sales and business development at Traction Software, a company that adds security, threaded discussion, moderation and document management to enterprise social software. “Many if not all technologies go through a period where there is more speculation than reality. Then the reality settles in, some adopters fall off, and then the serious use cases emerge and real money is spent. As we see it, and Gartner seems to agree, social software platforms are finding their way into mainstream enterprise — with the wiki as the leading app where enterprises see real and obvious value.”

Of all these social media, Twitter and microblogging in general currently seem to be generating the most curiosity in the enterprise context and in the C-suite particularly. The concept is not complex. As a Twitter user, for example, you have a limit of 140 characters to communicate a single message — from the bright to the banal — as many times a day as you wish. The result is a kind of stream of consciousness or random diary. Others can follow your narrative, if you’ve agreed to it, which causes each of your messages or “Tweets” to show up on their Twitter home page. Or you can follow them. The more people you follow, the more rivulets feed the stream that shows up on your home page and not always in a very coherent manner. You can also direct message others in what is essentially a form of texting. All these communications can be viewed and updated on the Web, through desktop apps, and on mobile devices.

Twitter also offers tools that help its users to network and find followers. It will search for matches in others’ profiles, suggest like-minded people based on the content of their Tweets and allow keyword searches of Tweets. But, as one user warns, “relying on the hundreds of Twitter engines may get you thousands of followers but not the right followers. Twitter will work only for those who know how to use it.”

As fragmented and hieroglyphic as it sometimes seems, Twitter has increasingly come to be viewed as a source of inside information where small talk can lead to value. Professionals are using it most often to post and answer questions in their areas of expertise, attempting to establish credibility, solve a problem or simply keep up with what’s happening in their industries. Twitter is also being used as an advance scout of sorts, pulling audiences to one’s blog or company Web site.

“You are already having these conversations every day in your e-mails, in your interactions with customers and prospects,” says Chris Baggott, CEO of Compendium Blogware. “These conversations help people, provide information and solve problems. You have already invested in that content, so why not share it with others who can benefit?”

The answer to that question is personal. Like all other forms of “social media” dating back to cave walls, Twitter is simply a communication tool with strengths and limitations that may or may not be useful to you, depending on your temperament, your business and your goals. That said, Gartner analyst Jeffrey Mann offers the following advice to C-suite executives: “Adopt social media sooner rather than later, because the greatest risk lies in a failure to engage and being left mute in a debate in which your voice must be heard.”

While American 50-somethings need $800,000 for retirement, they have saved an average of only $300,000.

All truth passes through 3 stages:

1. It is ridiculed.

2. It is violently opposed.

3. It is accepted as being self-evident.

— Arthur Schopenhauer
“Where do you see yourself in five years?” is a standard question interviewers put to job applicants or those looking for a promotion.

It is a terrible question because everyone knows there is only one answer the interviewer is waiting to hear. That requisite response is, “I’ll have my boss’s boss’s job and be ready for a vice presidency.” The give-and-take, premised on the notion that everyone is supposed to be a leader, ignores the fact that moving up so high and fast is as sure a thing as backing a lame horse at short odds.

The honest answer to the question is, “I don’t know” or, “Ask me after I’ve had the job a while” or some variant, any of which is sure to end the applicant’s prospects on the spot. There is an alternative answer along the lines of, “I see myself having mastered the new job, happy to be doing it and looking forward to doing it for years to come.” But, this may be even worse than a simple “I don’t know” because it suggests the applicant has no fire in the belly and could actually be content doing something he or she enjoys, understands and has mastered. It is assumed that having command of one’s work is inferior to commanding troops, is inferior to leading, even though this outlook perpetuates the Peter Principle.

The mania for hiring leaders has two obvious defects. Not everyone can lead, and not everyone wants to lead. Teaching leadership in business schools is as absurd as teaching connoisseurship in museum schools: we need to learn many things to become leaders or connoisseurs, but the ability to direct an organization, like the taste to discern great art from the run-of-the-mill, is not a commodity and cannot be taught. It is a matter of character and of that elusive thing we call talent. And, even with the right character, without the desire to be in charge, a person will decline to be a leader or fail trying.

There are two other defects in the practice of hiring only aspiring leaders. First, if everyone is leading, no one is following and, clearly, no work is actually getting done: where is Moses without the trailing Israelites? Second, if a leader is doing terrific work and showing no signs of slacking off or leaving, the No. 1 position is not open: basketball-great LeBron James’ job is not currently available. So, as we all know, because of the need for followers and the scarcity of job openings for leaders, most of us will spend some or all of our working lives as followers. Yet, no one seriously teaches or emphasizes followership. Establishing followership as a value is not particularly difficult. But it does require a concerted effort on the part of employers, employees and mediators like faculty in business and other professional schools and recruitment firms. If we fail to make a virtue of followership, we will continue the practice of rewarding top performers by promoting them into positions that often do not necessarily match their talents. Laurence J. Peter’s famous maxim makes the point: “In a hierarchy, every employee tends to rise to his level of incompetence.”

Employees also play a part in perpetuating this pattern. The phenomenon can be described in a corollary to the Peter Principle: “In a hierarchy, every employee tends to aspire to rise to his level of incompetence.” The explanation for this tendency, mirroring that for employers in accommodating such aspirations, is that the only way to make it worth an employee’s while to stay with an employer is to get a promotion. Employees may also have a subjective view of their own talents and entitlements. And the mediators — the teachers and

The majority of smokers worldwide support smoking bans in the workplace, with the strongest support coming from India (85 percent of smokers and non-smokers agreeing) and the weakest support coming from Germany (33 percent agreeing).

recruiters — have not been vocal about the problem. Yet this is something they have the ability to remedy with little effort and at minimal or no cost.

First, the schools. Any student enrolling in a course in followership is likely to be stigmatized as a loser, and a course is in any event unnecessary. It would be more useful for faculties to manage their students’ ambitions. This may seem an odd idea, but consider its implications. Students in professional schools are by and large ambitious. Students may arrive believing they are cut out to be CEOs or Supreme Court justices. But, after exposure to the basics of finance and marketing or of torts and contracts, they may realize that there are many disciplines within their fields that they are not especially good at or that they will never want to deal with again. If the students do not realize it, then the faculty should point out their strengths and weaknesses to them.

Next, the recruiters. A university dean or a corporate general counsel may have signed up with a recruitment firm in hopes of getting a top job. Of course, no one likes to turn down business. However, if the recruiters see a first-class dean or corporate counsel but not a president in their client, they need to say so, to be true to the individual, the corporate employer, themselves and their profession. Like the instructors with the students, they need to be straightforward even though it is difficult. They must ask the job-seekers how they honestly see themselves and why they want to rise higher, and they must point out that there is a distinction between wanting to rise higher and feeling they deserve to do so. The recruiters must then offer their own assessment. If we were all rational and not given to self-deception, jealousy, envy and delusion about what we deserve, we would easily — and when young — make peace with being followers. We would evaluate ourselves dispassionately: no one wants to admit to being a sow’s ear, but one can still admit to not being a silk purse. We would understand there are only so many top leadership positions. We would also understand that leadership is an essential quality of people nowhere near the top, of good followers; the middle manager has staff members who require direct, daily leadership from him or her because the top person is not likely to say a word to the staff.

Nothing I am saying about followership is naïve or idealistic. My conclusions are based on experience. Those who train and recruit workers profit from their work and have an obligation to help them come to terms with reality. If they question this approach, I would quote Cicero, “If a man aspires to the highest place, it is no dishonor to him to halt at the second,” and add that it is no dishonor to aspire to the second place anyway. Hierarchical psyches may be jolted, but it is a practice we could all do well to follow.

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Tony Hsieh, the 36-year-old CEO of Zappos.com, the popular online shoe seller, likes to share a story that illuminates the essence of the company’s vaunted customer service.

A couple of years ago, he and some fellow Zappos executives were attending a Skechers sales conference in Santa Monica, Calif. Zappos has established cordial relationships with a number of hip shoe companies like Skechers, and socializing with vendors is not uncommon in building business relationships. After the meetings ended, Hsieh and his Zappos colleagues went out with several Skechers sales executives and after a long night of barhopping the group made its way to the hotel where the Skechers crew was staying. Up in one of the executive’s suites, a member of the group suggested ordering a pepperoni pizza, which she had seen on the room service menu. But it was 3 a.m., and room service no longer delivered hot food.

“She was pretty disappointed,” Hsieh recounted. “So I dared her to call the Zappos toll-free number. We all thought it would be pretty funny and a good test of our customer service.” The young woman dialed Zappos on speakerphone, as the group listened in. When the Zappos call-center rep answered, the hungry Skechers manager explained her plight without mentioning the Zappos executives sitting next to her. The Zappos rep replied, “Please hold on.” And within two minutes, she came back on the line with the names of five pizza places in Santa Monica that were still open and would deliver pizza. The Skechers people were astounded. Hsieh was pleased but hardly surprised. What transpired was not an anomaly — it was a perfect illustration of the Zappos culture at work.

Zappos is a $1 billion online retail powerhouse that has become the poster child for 21st-century customer service. In just 10 years since its founding, Zappos has attracted a legion of loyal shoppers, first for its vast array of shoes, and now for an ever-expanding product line that includes clothing, housewares, electronics and more. In the competitive and crowded
Internet retailing sector, Zappos has won wide admiration, more for how it does business than for what it sells. In July 2009, Zappos received the ultimate accolade when it was acquired by an effusive Jeff Bezos and Amazon.com.

Hsieh (pronounced shay) always gets an appreciative laugh and more than a few gasps when he tells the pizza anecdote to audiences. He points out that the response by the Zappos rep, who was based in the company’s call center in Henderson, Nev., was appropriate, despite the bizarre nature of the call. The company has no formal process or scripted procedure to handle such off-the-wall queries, or any of its customer calls for that matter. Instead, every call is perceived as a way to make a positive emotional connection with a customer, whether it means delivering a desired pair of shoes overnight or finding a pizza parlor in the middle of the night.

The goal is simple: Wow customers with the kind of service that will not just fill a need but make them return again and again. Instead of being boxed in by restrictive rules of engagement, employees are mandated to help a customer in just about any way possible. This means taking as long as necessary to complete a call, chatting socially and making every attempt to resolve a customer’s problem. Given that
75 percent of Zappos’s sales are to repeat customers, the innovative approach is proving to be sound business.

“The story illustrates that if the employees understand the long-term vision of the company and you get the culture right, most of the other stuff just happens naturally on its own,” Hsieh explained. “You don’t need to worry about how you are going to come up with every possible scenario of every possible customer service call, because you can’t. But if you instill the idea that our brand should be stronger in a customer’s mind after the call than before the call, it will take care of itself.”

The representative, Hsieh said, “could have said a lot of things. ‘I can’t send you a real pizza, but I can e-mail you a picture of a pizza’ or something like that. The point is there is always an opportunity to build the brand regardless of whether something is being sold or not. Our phone lines actually represent some minority percentage of our sales. The point of the telephone is not to drive sales but to build our brand. If she had said, ‘Sorry, we don’t do that’ and hung up, that doesn’t help build our brand.”

In fact, Zappos has built its brand so quickly and successfully that the company has achieved the kind of much-desired buzz that all entrepreneurial endeavors crave. In less than a decade, Zappos has grown from a start-up based in a San Francisco apartment to a retail force whose legions of admirers swell exponentially each year. Magazine cover stories, fawning blogs and even a Harvard Business School case study have kept the spotlight bright. Zappos has been named one of Fortune magazine’s 100 Best Companies to Work For and is among Fast Company’s 50 Most Innovative Companies.

Of course, this is a company that has snubbed conventional wisdom from the outset. Founded in 1999 by Nick Swinmurn, a Bay Area entrepreneur, Zappos began as strictly an online shoe store. Hsieh came aboard two months later as an investor and became so immersed in the concept that he quickly became CEO. Having made his own fortune by selling his company LinkExchange for $265 million to Microsoft in 1998 at age 25, the soft-spoken Harvard computer-science grad was looking for the next new thing. Swinmurn was in the entertainment business. How could he keep customers, stuck in a metal tube 40,000 feet above the earth, happy and amused for hours at a time? Zappos would no longer be in the shoe business, it would be in the customer satisfaction business, offering such exceptional customer service that word would spread and shoppers would flock to the site.

“We decided to build the Zappos brand to be about the very best customer service and experience,” Hsieh said. “So not only would that allow us to expand beyond selling shoes online but long term, we wouldn’t necessarily be limited to e-commerce. For example, I wouldn’t rule out in 20 or 30 years from now a Zappos airline or Zappos hotel chain. Customers have asked us to start an airline or run the I.R.S. It’s just about having the best customer service.”

As great customer-centric companies demonstrate, the foundation of success is built almost entirely on finding, training and retaining highly motivated, talented customer-facing employees. And it is the innovative approach to its human resources that has put Zappos on the map. When it comes to corporate cultures and work environments, Zappos is out near the lunatic fringe.

A core company value is “create fun and a little weirdness.” Among a wide array of classes offered to all employees is a course on what makes people happy. The company has its own television production staff to make wacky videos that are posted on YouTube. Call-center reps are challenged to find innovative ways to make personal, emotional connections to customers, whether chatting about a family wedding or sending flowers to a customer who has lost a loved one.

“The Zappos call center is unlike any other I’ve seen and I’ve been in thousands,” said Mary Murcott, head of Performance.
mance Transformation, a customer-experience consulting firm in Dallas. “From the outside, it appears disorganized, but it is not. What holds it together is the corporate values they all have. They understand why they are in business and what it takes to keep a customer. It’s about being authentic and empathetic. As Tony Hsieh says, culture drives service. It starts with the culture, not service policies.”

This passion for the customer is built into the DNA of the culture, starting at the top, and it permeates the Zappos mission, corporate strategy, policies and procedures and drives the business engine. Every decision, from whom to hire to what technology to invest in, is spurred by that passion and it has put Zappos in rarefied air.

Bezos, the founder and CEO of Amazon.com, was so impressed with Zappos that he decided to buy the company. Amazon wound up spending nearly $1 billion in a deal that will make Zappos a wholly owned subsidiary, with Hsieh and his management team retaining control of the company.

“I get all weak-kneed when I see a customer-obsessed company, and Zappos is definitely that,” Bezos said in a video welcome to Zappos employees. “I’ve seen a lot of companies, and I’ve never seen a culture like Zappos. That culture and the Zappos brand are huge assets that I value very much.”

Welcome to the Monkey House

The best way to appreciate the Zappos culture is to visit its headquarters in a nondescript office park in Henderson, a Las Vegas suburb. It is a combination frat house and fantasy camp, but real business is under way. Walking through the main entrance, a visitor is greeted with a sensory explosion. The smell of fresh popcorn wafts through the lobby, a skeleton pirate sits on a shoeshine station near the elevator and a giant 15-pound ball made of discarded name tags (known as Lucille) grows amid the general chaos of employees coming and going. Books that Hsieh and others have read and recommended to employees fill a number of shelves and are there for the taking. And tour groups from other companies wait to be guided through the office. It is fun and weird, and the frenetic atmosphere quickly begins to make sense.

Inside its three buildings in Henderson, where about half of the company’s 1,300 employees work (the others work in a distribution center in Kentucky), Zappos is a loosely constructed meritocracy driven by a single mantra: happy customers are good. The young, preternaturally upbeat work force believes in the mission with religious zeal. Though there are earmarks of a Silicon Valley start-up, the Las Vegas location gives Zappos a distinctive flavor. Yes, nearly everyone is wearing T-shirts, flip-flops and cargo shorts, and the cafeteria offers free food. Typically, the Zappos employee is either a transient newcomer to Las Vegas or a refugee from the gaming and hospitality industries.

It didn’t take long for Zappos, which relocated from San Francisco to Las Vegas in 2004, to earn a reputation as the cool place to work. A Zappos job is coveted and difficult to get (the company hires just 1 percent of applicants, which Hsieh points out makes it harder to get into than Harvard). Henderson isn’t Silicon Valley — a disgruntled employee can’t just go next door to look for a job at another high-tech company. But good luck finding a disgruntled Zappos employee. These people seem to genuinely love their jobs.

In one building, a tour group arrives in a small lobby and finds a hand-printed sign and an up arrow that reads: “Stairway to Heaven.” At the top of the stairs, at the reception desk, is Heaven Thomas, a young employee who immediately challenges the guests to try the Hula-Hoops that sit by her desk. If there is an explanation, none is provided.

Moving through the offices, visitors encounter various functional work groups — finance, IT, business development, merchandising, call center, HR, vendor relationships — and each group has created a fanciful personality around its particular discipline, like the Benefits Body Shop and the HR Lube Shop. Hsieh and his top executives sit in Monkey Row, a jungle-like aisle of desks and trees, accessible to any employee. The only private office belongs to David Vik, a former chiropractor and early investor, who goes by the name Dr. Vik. He is Zappos’s full-time in-house life coach. In his office is a throne and crown. Every visitor, photographed astride the throne, leaves with a souvenir Polaroid photograph.

Tour groups receive goofy greetings in each department. At one stop, all the employees rise up from their seats and snap digital photographs of the visitors. At another, cowbells are rung. And it is the rare day that some festive event isn’t under way either inside or outside the building. Any excuse will provoke a barbecue or small festival, such as Bald Blue and Tattooed Day, Spirit Week or a Zoliday party. Search for Zappos on YouTube and watch in-house productions of employee “talking while eating marshmallows” contests. One wonders how anybody gets any work done at all.

But the mayhem is just a carefully considered piece of the larger Zappos culture. What drives the Zappos engine is an employee base that has made a passionate and emotional commitment to the company’s mission and culture. Like workers involved with other great brands like Harley-David-
Michael Sipe

Hsieh is convinced that employees are the only conduit to satisfied customers. Zappos employees feel strongly that they are part of something bigger than themselves. They talk constantly about the opportunity to learn, grow, be creative, be themselves, take chances, push the envelope. Despite layoffs in November 2008, there is a sense of family and support that permeates the workplace. Indeed, both Hsieh’s father and brother work for the company and countless employees have encouraged family members to apply for jobs.

**Measure Twice, Cut Once**

In order to ensure that the chaos is controlled and the hard work that creates profits is actually performed, Zappos is fanatical about hiring and training the right employees. Its executives are aware that this culture is not for everyone.

“We spend a lot of time deciding, and we hire very, very slowly,” said Rebecca Ratner, Zappos’s director of human resources. “We spend a lot of time with people making sure that we’re pretty confident — as much as we can be — that they are going to be a good fit.”

Ratner, a gaming industry veteran who worked at Wynn Las Vegas and Bellagio, noted that most companies work really hard at deciding if a prospective candidate is right for it but spend virtually no time at all worrying whether the company is a good fit for an applicant. Zappos does.

Several rounds of interviews are required for every job, from entry-level to management. Applicants are asked questions like “On a scale of one to 10, how lucky do you think you are?” Or “How weird are you?” The answers are less important than how a person reacts to the question. If someone is flustered or responds by asking, “Why would you ask me that?” there’s a good chance he or she would not be a good fit at Zappos.

Zappos has an unusual list of 10 core corporate values (see box) and one is to “build a positive team and family spirit.” Socializing among co-workers after hours is not just encouraged, it is expected. Zappos managers are expected to spend between 10 percent and 20 percent of their work time away from the office socializing with their team. Prospective employees are asked how they feel about such fraternizing.

“How will they really feel about it if there are no boundaries in place?” Ratner explained. “Do they want that or not? And some people are not comfort-

Hsieh is convinced that happy employees are the only conduit to satisfied customers.
1. Deliver “Wow!” through service
2. Embrace and drive change
3. Create fun and a little weirdness
4. Be adventurous, creative and open-minded
5. Pursue growth and learning
6. Build open and honest relationships with communication
7. Build a positive team and family spirit
8. Do more with less
9. Be passionate and determined
10. Be humble

ZAPPOS
10 CORPORATE VALUES
But it’s not the money; it’s the people. They are like family. Most customers are worried about shoe size or quality or color. But many find themselves talking to a rep about upcoming birthdays, family pets, or some special moment that opens the door for a personal but polite conversation.

Reps can take the initiative in creative ways. One rep sent a customer an e-mail alert about an order and received back an out-of-office reply from the customer: “I’m going to be out of the office. I’m participating in a breast cancer awareness walk for a few days.” The call-center rep sent out a handwritten response card saying, “Thank you for being such an awesome person. I really appreciate what you are doing for this cause.” When she got home, the surprised customer was bowled over. “My own family didn’t even thank me or tell me I was doing a great thing,” she posted on Zappos’s Web site. “And yet a company gets a random out-of-office reply and takes the time to send me a handwritten card. You guys are amazing!”

Starting at $11 an hour, average for the local market, call-center reps go through four weeks of customer-service training and are put on a track that will determine how far they can climb and how much they can earn. There are an additional 25 skill sets — from learning e-mail skills to order verification — that are available for call-center reps to acquire. Each new skill set brings a bump in pay, up to $26 an hour. All employees receive full medical benefits and free food throughout the day. In a city filled with call centers, Zappos says it rarely loses a good employee to the competition.

It is not about the money. Managers and other salaried employees are compensated competitively, but this is not a place that is producing stock-option millionaires. The zeal here is about working in a place where the work feels like play and the camaraderie is genuine and supportive.

“I make half of what I made at my last job,” said Stephanie Simms, a buyer in the children’s merchandising group. “But it’s not the money; it’s the people. They are like family. We all come from so many different places that we spend Thanksgiving together.” She noted that despite a lack of college, she became a buyer in 18 months at Zappos. “That could never happen at another company,” she said.

For Hsieh, Zappos remains a work in progress, rife with potential. Like any business, Zappos is focused on profits. But for Hsieh, there remains a more potent catalyst to that end: happiness. As a lifelong skeptic who sneered at psychology and philosophy, Hsieh has recently embraced the idea that one can study the theory and science of happiness and create a corporate Petri dish for its cultivation. He compares it to training for a marathon, a challenge he himself has taken on several times. Rather than presuming that happiness, like long-distance running, can be achieved haphazardly, Hsieh points to research that illuminates distinct characteristics of what makes people happy. He is convinced that happy employees are the only conduit to satisfied customers, so he has not just studied the phenomenon but he has written a book on the subject, “Delivering Happiness,” which will be published in 2010.

The research shows that people are actually very bad at predicting what will make them happy,” Hsieh said. “They think, ‘Once I achieve this or once I get this, I’ll be happy.’ But usually that kind of happiness — like winning the lottery — is short-lived. Most of the frameworks for happiness conclude that there are four things required: perceived control, perceived progress, connectedness (meaning the depth of your relationships) and being part of something bigger than yourself.”

Clearly, employees at Zappos feel deeply connected and part of something special. In an uncertain economy and turbulent global business environment, the ability to offer this kind of nurturing environment can be powerful. Hsieh believes that if, by using proven research, you can find a way to make people happy and more purposeful in their jobs, you will have a formula that can produce great and sustainable companies. “You can argue, which is the means and which is the end,” Hsieh said. “An altruistic view says happiness is the end. But if your goal is to build a long-term profitable business, then happiness is the means to achieve that.”

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Yang persisted, Bartz reconsidered, and early in 2009 she became Yahoo’s president and chief executive officer. Most companies executing a CEO succession under pressure are not so lucky.

Nearly every management guru worthy of the name has written about CEO succession, and for once the savants have achieved near consensus: most companies do it badly. It seems that corporate chief executives and their boards treat succession the way that many people treat estate planning. It’s unpleasant to think about, so they put it off, often until a crisis forces their hand.

Briefings asked four thought leaders in the field of leadership and executive development to disclose what counsel they might have given to Yahoo’s directors before they began a search and to Bartz after she accepted their offer. More broadly, they were asked to share their perspectives and insights on how companies can better prepare for CEO succession, in good times and bad.

Although Yahoo’s choice of Bartz was not without critics, she is unquestionably a capable executive, having earned her stripes in the turnaround of Autodesk, a struggling company known for one product — the Autocad design software — when she arrived, now a computer-aided design powerhouse with a market cap of about $6 billion. That Yahoo was able to lure her out of semi-retirement is all the more fortunate, given the company’s lack of a coherent succession plan.

Bartz, 60, is actually the third outsider tapped to lead Yahoo. In 2001, Terry Semel, an accountant turned Hollywood mogul, succeeded Tim Koogle, who had been selected by the company’s venture capitalists to aid Yang and his fellow co-founder, David Filo, who share the title chief Yahoo.

By most measures, Semel was an able leader for Yahoo, broadening the company’s services through internal development and an aggressive acquisition program, and vanquishing its early rivals. Remember Excite or Magellan? But the rise of Google, with a different value proposition, siphoned advertising dollars away from Yahoo and its star dimmed. Semel came under fire from shareholders for his lavish compensation despite the company’s diminished market share, and for walking...
away from an unannounced, but much leaked, acquisition bid from Microsoft. He resigned in 2007.

But shareholders were no happier with Susan L. Decker, an insider who succeeded Semel as president, or Yang, who took the chief executive slot and rejected Microsoft’s by-then-public offer in February 2008 to buy Yahoo for $44.6 billion in cash and stock. At one point, one-third of shareholders voted against Yang’s re-election to the company’s board.

In one of many tart-tongued letters to Yahoo’s chairman, Roy Bostock, the activist investor Carl C. Icahn accused the board of creating “self-destructive doomsday machines” to thwart Microsoft’s attempted acquisition and of trying to “entrench their positions.” Icahn, who joined the board in August 2008 as part of a settlement of a fierce proxy battle, held a stake of roughly 4.5 percent in Yahoo as of August 2009, but has gradually been reducing his holdings. Yahoo now has a market cap of about $23 billion.

One of Bartz’s first acts as chief executive was also a disappointment to shareholders, who were perhaps hoping that she could bring back Microsoft’s hefty precrash offer. Instead, she sold Yahoo’s search business to Microsoft for an initial 88 percent share of search revenue in a 10-year deal, with no up-front cash. Yahoo shares dropped 15 percent.

Bartz told The New York Times that investors had misunderstood Yahoo’s charter, which was not to be a search engine, per se, like Google or Microsoft’s Bing, but to be a Web portal and content site, where users might also want to do a search. “We have never been a search company,” she said.

That explanation did not sit well with longtime Yahoo observers inside or outside the company, who pointed to several billion dollars worth of search engine acquisitions the company had made, and, not surprisingly, past and present Yahoos were not shy about posting their objections on the Web. “What a loser” was one of the nicer comments.

But Bartz can give as good as she gets. She met Jerry Yang at Cisco Systems, where they both served on the company’s board. John Chambers, Cisco’s chief executive, has said he believes that the two will work well together and that she was the best choice available to Yahoo. He also notes her plain-spoken style. “You always know where she stands,” Chambers said. “You may not always like it.”

Indeed, Bartz has been known to counter a reporter’s impertinent questions with a well-placed expletive or two. She is known as a tough cookie, but she also has an open, compassionate side, and comes across in person as direct and quick-witted, quick to laugh and willing to tease her way through tense situations.

These characteristics should ease her way at Yahoo, where she has moved swiftly to reshape the company to her design, revising the organizational structure, replacing senior executives and cutting costs, including 675 jobs, or 5 percent of the work force. She has shut down parts of the business, including the GeoCities Web-hosting service, which Yahoo acquired for more than $4 billion in 1999, and is expected to shutter or divest other suboptimal units.

Early indications are that Bartz’s efforts are paying off. In the quarter ended Sept. 30, Yahoo’s profit more than tripled to $186.1 million, or 13 cents a share, up from $54.3 million, or 4 cents a share, a year earlier. Revenues fell 12 percent, to $1.58 billion, but Yahoo executives said that spending on Internet ads was stabilizing, particularly from large marketers.

Even Icahn was mollified, as he indicated in letters to Bartz and Bostock announcing his decision to step down from the board. “I wish you could be cloned; because so many of the companies in the country could use a Carol Bartz as CEO,” he wrote. “My resignation in a way is a compliment to you, in that I do not believe that Yahoo any longer needs an activist shareholder.”

**Michael Useem**  

**I’M DUMBSTRUCK, AS I TRY TO PUT MYSELF**  
in Yang or Bostock’s office, considering how to choose a successor, and knowing the an-
swer to that question has to be responsible to the company, and to each of them too.

As I run a bunch of these abrupt forced exits through my mind, a few thoughts stand out. One is if you’re a publicly traded company and you have any market cap at all, inherently you have lots of money managers breathing down your neck and you have no choice but to pay attention to them. That has a pernicious side, but you can’t turn a blind eye to equity analysts and the largest shareholders. It is the nature of the beast. You have to be focused on and hearing what the collective drumbeat is.

Second, particularly for Jerry Yang, you’ve got to ask yourself, have you reached the Pierre Omidyar [founder/chairman of eBay] moment in 1998. You’ve built the company, it’s grown beyond your wildest imagination. Now, are you the person to run it when it’s almost been reincarnated? The name is still there, but it’s a different vessel with a different charter.

Third, take a look at successful transitions in which a founder found himself in a similar circumstance — and eBay is a pretty good example — to see how this can be handled. It’s best to handle it before you have to handle it. You run the risk that a small perturbation can precipitate a desperate move, when you never should have allowed that to happen. You should see that there is this possibility.

When Charles Schwab gave the heave-ho to David Pottruck, Pottruck didn’t see it coming. When Eckhard Pfeiffer got ousted at Compaq, he didn’t see that coming. Often there’s a precipitating event, and this antagonism toward the chief executive has been building up. In the case of Pottruck, he had a big success with Schwab’s movement onto the Internet, but his relationship with Charles Schwab began to suffer. They might have ridden it out.

Also, what we don’t see but no doubt happens much more often is top executives who lose favor with the board or top executives, learn that and get out before there’s a push. I think it’s far more common than any of us read about. For a host of reasons, CEOs fall out of favor with their board or a key director or even their investors, even though the company is not doing badly. I think that one reason CEO pay has exploded — to much public chagrin — is it has gotten tougher to get people to move into that role.

For Carol Bartz, or any new CEO coming into a similar situation, I have four humbly submitted suggestions:

• Get out there on a road show to meet all the key shareholders and personalize the relationship with the top 25 investors and equity analysts.

• Architecture is everything, so make certain that you’ve got people groups aligned appropriately, that you’ve got a top management team, and that incentives match what you want them to do. This is different in a big company like Yahoo. Smaller companies run by the seat of the pants. Company culture is the way you ultimately carry the day with people.

• Pull out the checklist, almost like the pilot’s checklist before they take off, of the things you’ve got to do, including create a strategy, confirm that you have faith in the people you have and let them know who you are.

• Make certain you’re getting great feedback, maybe even hire an executive coach or consultant, to give you an alter ego who is extremely well informed about what you’re doing and how you’re doing, with customers, with employees, with the board.

Know the board: I cannot overstress how important it is to develop a real relationship with them.

If we look at best practices in CEO succession, the companies that do it better not only have identified potential candidates, they’ve done it years in advance, so it’s not an event, it’s a continual process.

— Ana Dutra

Ana Dutra

Chief executive officer of leadership and talent consulting and executive vice president, Chicago, Korn/Ferry International. Author: “Fast Consolidation: Creating Value in a Brutal Economy.”

IT SEEMS TO ME THAT YAHOO ACTUALLY did the right thing. They had their internal
candidate, and then they looked outside and found somebody who was more strategic, more of a visionary and more charismatic. One thing that boards fail to realize in CEO succession is that a great president or COO will not necessarily be a great CEO, though sometimes it’s the only option.

If we look at best practices in CEO succession, the companies that do it better not only have identified potential candidates, they’ve done it years in advance, so it’s not an event, it’s a continual process. They follow them, and others are added to the pot, from inside or out, and some are removed. What they do really well is market scanning, so they’re always looking at and developing their internal talent, but also who is available in the marketplace.

One thing that surprises me is when I ask clients whether they have a contingency plan and so few do. It’s shocking, even after stories like Coca-Cola, where Bob Goizueta died of lung cancer with no successor in place, or McDonald’s, which lost two CEOs in a year — one to cancer, one to a heart attack. Does the board know exactly who will take over and for how long?

Succession planning is much easier for companies whose CEOs are not doing well, or if the company is not doing well, than for companies that are very successful or with a CEO who is very charismatic. Those boards are handicapped, they are so fearful of even addressing the issue with the CEO.

But I ask them, how many of you do performance reviews every year, how many of you do comp studies? It’s the same thing. If you call it succession review instead of succession planning, I think that boards would be more comfortable dealing with it.

Another question is, To what extent do we involve the CEO? My answer is, It depends. As you look at the company going forward, if successful execution of the strategy is going to require a CEO very different from the current one, then you should probably involve the CEO less, because the tendency is for people to pick people like themselves. The other issue is how open-minded is the CEO really to identify, groom and transition to the person who will be their successor.

Understanding exactly what leadership traits and what knowledge will be necessary to pull the strategy forward is incredibly critical. That’s exactly the value of having a very objective process to follow and a tool to measure the candidates. Make the strategy very clearly articulated.

But oftentimes we find that the board is not aligned. We need to identify then what factors may prevent an insider or outsider from succeeding. Condition No. 1 is a clean process. Second, be very open and very clear on the process to the internal candidates. You have to ensure that somebody who comes in will be able to engage the people who were not chosen. If you don’t want to lose them, you have to think about what the dynamics will look like going forward.

Some companies are at the point where they have just finished identifying the strategy moving forward and they are entering the execution phase. Think about a company that has just completed a major merger or acquisition. They need somebody who can come in and embrace the road map that has already been laid out and accepted by all the main stakeholders. If you bring in somebody who’s intent on moving and shaking and starting from scratch, you have a problem.

But there are cases where what you need is somebody who is really going to challenge the status quo and redefine what the strategy is and will be. Here’s the challenge: in a situation like that, on the one hand, you do need to take the time to understand the context, to know who your stakeholders are and what they are expecting. On the other hand, the honeymoon is going to be shorter because there is such hunger for results that you have to do a few things quickly to be real.

I would advise Carol Bartz to look at everything that’s broken, that needs to be changed, from an ease of implementation or...
risk approach, and then she will start to see things that you can just get done. What you're doing then is gaining credibility and buying time to do the big moves that if you try to do right upfront, you will be questioned.

From a people perspective, very quickly identify who are your high-value players. You want to empower them to do the right things for you. Identify the people first who are your true supporters, identify the ones who are not, and you can see that in their body language, in the way they interact with you in the first days.

Some things you have to do right now, because they're no-brainers, because you're hearing from everyone that they have to be fixed. Figure out what are three things to do right away that will show you are for real. Sometimes, it's something as inconsequential as changing the business development call and changing the day. It just shows there's a new sheriff in town.

Second thing is make your expectations for your relationship with the board very clear: here's what I expect from you in terms of support and advice. I've never heard of a board that has denied this kind of help to an incoming CEO. The truth is boards want to see the new CEO succeed. But what often happens is because that CEO is so driven by pride — wanting to succeed on his or her own — he or she ends up alienating that very board, which should be their biggest fan.

I would recommend that she find one or two personal mentors on the board, people with whom she can get together one on one, because these people can be invaluable in times of crisis. People love to be in that position. It's just silly for too-proud CEOs not to take advantage of that.

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**Joseph L. Bower**


CLEARLY YAHOO HAD REACHED A POINT where the directors felt they had to act, and they chose to look outside the company for a successor. At such a time, the board has to step up and say we're not doing well enough, and we have to get a new CEO and it's as simple as that. It's a question of when the board loses confidence in the management.

Ideally, I would suggest you look for an insider that has the perspective of an outsider — an insider who is able to really have a broad view, a strategic view of the company. Almost all the time, if you get consultants in, all they do is ask what are your strengths, what are your weaknesses, and most of the time people inside a company think they're pretty good. It takes an unusual insider to understand where the weaknesses really are.

If you look at what private equity people do, they tend to hire from within the industry broadly. Or look at Ford. They went outside the automobile industry, but commercial aircraft is still about massive manufacturing with union workers, and Alan Mulally [Ford's president and chief executive, previously executive vice president of Boeing and chief executive of Boeing Commercial Airplanes] is doing pretty well. In picking Carol Bartz, Yahoo chose an outsider who is also a Silicon Valley insider, although from a much smaller company with a very different customer base.

When I look around and think of the companies that have really done a good job managing for succession, they have been the companies that are very strong, that have had steady profits. It's not so much the level as the steadiness — that they're under control. In those circumstances, some number of them really do invest in talent and the process of succession.

The rest of them just scramble.

Even in earlier times, succession was not something to which many companies paid a lot of attention. When they got near the time that the CEO was going to retire, the board looked at who else was good and said, Let's pick one of those. Occasionally an active board would decide that the insiders weren't good enough, and they would look outside.

A Booz & Company study showed that if your company performed in the bottom 10 percent of its industry for two years in a row, the chance that you got rid of your CEO was roughly 5 percent. Why isn't it higher? He or
she might be near retirement anyway. Or the board isn’t of the view that responsibility for the performance is the CEO’s, it’s just circumstances.

At least in principle, when you are conducting a search, you’re looking for someone who has a specific set of skills. There are always overriding things, like intellectual integrity, personal integrity, evidence of leadership, but you have a sense of what the company needs going ahead, and those criteria flow from some sense of what the future strategy should be.

You can say, Wait a minute, isn’t that the job of the future CEO? Yes, up to a point, but it would be an unusual situation that anybody from the outside could come in and say, This is what this company needs. The trick is to find someone who, as far as you can tell, has enough experience with the industry and enough strategic capability that he or she can devise an appropriate approach once they got into the company and have a good understanding of what is there.

I can think of other situations where it seems perfectly clear in retrospect that the mandate for the new CEO is basically clean it up and get it ready for sale. But in Yahoo’s case, Icahn’s been satisfied. I’ve seen before the experience of outside investors that once they’re inside and see the situation, they relax. It’s easier to be critical from the outside.

Carol Bartz has really two or three very high priority items. First, she’s got to meet and come to understand and assess her team. Second, she has to get a quick fix on her financials, the balance sheet, the cash flow. Is she in a healthy situation, is the ship leaking, are there threats ahead? Then, as fast as she can, she has to assess what the strategy is and how it has to be modified.

It’s really strategy, people and finance, and she has to get on top of all three quickly. In some ways, getting on top of finance is easiest. The people, if you’re any good, you begin to get a sense and understanding of fairly quickly. The strategic problem, unless you’re already intimately familiar with the company, takes longer, because you tend to get disparate views. It’s surprising how different the views of the board members can be.

One of the most extraordinary paradoxes in the whole process, whether the situation is healthy or problematic, is that the board is looking to the new CEO to develop new strategy, which is inherently critical of the existing CEO. If there have been problems, it is critical, but even if things are going well, what you’re really saying is, How are we going to change, because the world is changing.

Looking at Yahoo, the strategy they were following was based on the environment, but the environment has changed. It is a difficult leap. Incumbent CEOs find that process uncomfortable, unless they’re very very confident. It’s easy to feel that you personally, and your thinking, are under attack.

For some reason when we get into succession issues, everyone forgets Management 101 and goes off half-cocked.

— William J. Rothwell

William J. Rothwell
Professor of human resource development, Smeal College of Business, Pennsylvania State University. Author: “Effective Succession Planning: Ensuring Leadership Continuity and Building Talent From Within” (AMACOM, 2005).

FOR YAHOO, THEY SHOULD BEAR IN MIND that most CEOs brought in from outside fail. They are often saddled with keeping a senior executive team who have support from the board, so it’s difficult to bring in people beholden to the new CEO rather than their own agenda. Then the chances of failure are dramatically increased.

A smart board will give the CEO a free hand to replace the key reports, and look at the senior team as a whole fabric and take a systems view, rather than coming in as a lone gunman.

Another problem that we run into a lot in succession — and my clients never really listen to me about this — is avoiding the like-me bias to clone ourselves. Men prefer men, women prefer women, white people prefer white people. If business conditions are changing, we might need a completely different kind of person, one who might be offensive to the current leader, one with completely different values. This raises questions even about Bill Gates’ successor, and whether that person can help Microsoft get over its problem of wanting to keep everything proprietary and keeping a monopoly, which just isn’t working. They need some-
one who can strike alliances.

The question with Yahoo is, Do they have a board that is on target with this, does the new CEO have the freedom to deal with the complete executive team? Or is this just an external hire and the direction isn't clear and the choice of the person is superficial?

One of the issues that is always a factor is how knowledgeable the board members are about the talent available in the business and the talent that is available outside. Board members are often not that knowledgeable about succession. CEOs pick their buddies to serve on the board, and people with H.R. background are often not well represented.

This also plays out with the issue of executive pay. There’s nobody that knowledgeable about H.R. on boards, with the result that they do things about compensation that an individual knowledgeable about comp practice wouldn’t advise.

There are three general rules of thumb about how we pick successors. If the board is happy with the direction of the business, and we have one or more qualified candidates internally, then the usual advice is to promote from within, to get more of the same and continuity.

If they’re not happy, but don’t want to make too radical a change, they source a CEO with a track record in their industry, who will be comfortable making the sort of changes they want. The third rule is if the board is not happy with direction and would like a radical change, they should select a CEO from outside the business and outside the industry. That leads to a CEO who does not buy into industry wisdom, but comes in with a lot of questions that might otherwise be taken for granted.

One of the reasons CEOs don’t build successors from within is the board doesn’t insist they do so. There are really just three things to pay attention to: goals, roles and accountabilities. What do we want out of this? Who is doing what? What is the CEO’s role, the board’s role, H.R.’s role, the role of operating managers? Then accountabilities: how are we holding people accountable for achieving the goals and acting the roles?

This is Management 101. But for some reason when we get into succession issues, everyone forgets Management 101 and goes off half-cocked. About 70 percent of successes fail, and it usually goes back to one of those three things.

Another key issue is sustainability, keeping it going. A lot of companies experience a succession crisis, and then since it personally affects the leadership, everyone is highly motivated to do something for a short time. But the program eventually fails for lack of sustained support.

A bigger group of companies suffer from what I call the like-us syndrome. They look at outside candidates and say, they won’t fit in here. The real problem is taking that at face value and not digging deeper. Maybe we don’t want someone who fits in here, maybe we want someone who thinks quite differently, to take us to the next level.

Many of these problems start at the board level. We see too little discussion about how to get boards more accountable, more active, more knowledgeable, and more willing to hold CEOs accountable for things that go beyond the quarterly result or even the daily stock market. Everything in our culture rewards that short-term thinking.

It takes time, even with the right person, to get results. If we’d judged Lee Iacocca on just his first year at Chrysler, we’d have fired him.

— William J. Rothwell

It takes time, even with the right person, to get results. If we’d judged Lee Iacocca on just his first year at Chrysler, we’d have fired him. But he brought them around.

The question is, Where do we need to drive the business, and who’s best equipped to do that, and then will we give them the free hand they need to pick the people they need to best accomplish that? Or are we going to play the politics of the senior group?

Lawrence M. Fisher has written for The New York Times, Strategy + Business and many other publications. He is based in San Francisco.
Singapore Bets Big on Talent

By developing a sophisticated knowledge base at the Biopolis biomedical research hub, Singapore assumes it will gain an economic advantage.

新加坡希望通过启奥生物医药研究园建立起来的成熟智库，给本国带来经济优势。

By Deborah L. Jacobs

Philip Yeo, mastermind of the Biopolis
2005年4月的巴黎还是春天，Judith L. Swain从家乡圣地亚哥飞抵巴黎，接受一场可谓高层次的工作面试。Swain那年56岁，已经拥有了许多终生成就，作为心脏病学家的她曾担任过许多资深职位，时任加州大学圣地亚哥分校转换医学院（Translational Medicine）院长。她的丈夫Edward W. Holmes当时60岁，是该校卫生科学副校长及医学院院长，也陪同她一块儿来到巴黎。

接待他们的是全新的新加坡启奥生物医药园的策划人杨烈国（Philip Yeo）。杨烈国当时正在酝酿医药园的花名册，就提议他们三人各自飞行半个地球，来巴黎共度周末并讨论该项目。这三人是老朋友了，这对夫妻档已为新加坡担任了10年顾问，提供有关建立新加坡青年国际奖学金计划以及其他项目的建议。

现在，杨烈国想要全职聘请他们，并已备好了相当诱人的待遇。Swain可以设立她自己的医学研究所，重点研究传染性疾病的成长、发展、代谢和免疫反应。Holmes将可以主持国家医学研究委员会的工作。就算没有杨烈国法国大餐和卢浮宫一游的款待，这般待遇也足以令夫妇俩难以抗拒。

类似地，伯乐杨烈国陆续招募了约100名医药学术
The greatest lure is intangible and goes to the heart of what motivates creative and innovative people: the chance to do leading-edge work in the company of leading-edge colleagues and under the auspices of managers who value their work.

Edison T. Liu is a star performer at the Biopolis, a research and development center in Singapore. He was recruited in 2002 from the National Cancer Institute in Bethesda, Md., and he likened his Singapore colleagues to members of a symphony orchestra. They want “an environment to practice their craft, a place where their work is going to be appreciated and where there are others if they need assistance,” he said.

Today, about 10,000 people from more than 50 nations are employed at the Biopolis, which has grown to seven buildings since 2003. Singapore, which has a population of less than 5 million, has made an enormous financial investment in the research center. Construction costs during the first phase, from 2001-6, were $400 million, and the operating budget for the same period was $1.5 billion. An additional $129 million has been spent since then just on construction.

Singapore is betting that the investment will ultimately work to its economic benefit. So far, no blockbuster drugs have been developed — the cycle of research, development and approval takes at least 15 years. The biggest payoffs, whether in the form of cures for cancer and other diseases or job creation, may be far down the road.

Yeo compares the investment time frame to planting a
durian tree, which takes seven years of nurturing before it bears the notoriously stinky fruit that is a Southeast Asian delicacy. Short-term thinkers should confine themselves to growing bean sprouts, which are edible in a matter of days but offer far less substance, he said.

**Competitive Strategy**

The impetus for the Biopolis was unique to Singapore but analogous to competitive pressures that cause private enterprises around the world to expand their products or services. Unlike many of its neighbors in Southeast Asia, Singapore is not rich in natural resources, so it must look for other market advantages. Yeo, who was chairman of the Singapore Economic Development Board from 1986-2000, saw opportunities in biomedical research and drug manufacturing.

His idea, when he became head of what is now known as the Agency for Science, Technology and Research (A*STAR) in 2001, was to nurture a fledging pharmaceutical industry and develop future industries that could create jobs — “a whole food chain, from innovation to production, marketing and sales,” he said. He also wanted to improve medical care by bringing research from the laboratory to the bedside in areas that were underserved. Colon and other cancers that are especially prevalent in the various ethnic, racial and genetic groups that populate Asia were a particular concern. The Biopolis, which emerged from these aspirations, opened in 2003.

But Singapore lacked the intellectual capital to drive Yeo’s economic plan. Training a scientist takes 12 years, from earning a bachelor’s degree through postdoctoral study. There was a dearth of talent in the pipeline, and there were not enough senior scientists to train younger ones on the way up.

Yeo addressed both sides of the equation — young scientists in the pipeline and senior scientists, referring to them as “guppies” and “whales.” The guppies are talented young Singaporeans given scholarships to complete their undergraduate and graduate science education overseas. In exchange, they must agree to a “bond.” It requires they do a one-year salaried internship in a Singapore research laboratory between their bachelor’s degree and Ph.D. programs and work in Singapore for five years after completing their doctorate. This program, funded from 2001-10 to cover 1,000 scholars, costs about $720,000 per student, including tuition, travel expenses and stipends. So far, 900 of the scholarships have been awarded.

The whales in Yeo’s metaphor are the internationally renowned scientists whom he recruited to be mentors to the Singaporean scientists trained abroad. In their Singaporean laboratories, whales are free “to pursue what they think are great ideas,” said K.C. Nicolaou, an expert in synthetic chemistry. Singapore does not require research proposals, he explained.

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“The hope is that economic growth and innovations will flow from there,” said Nicolaou, whose specialty is the foundation for drug discovery and development. Profits from intellectual property emerging from any of the 12 Biopolis research institutes are split between the individual institute and A*STAR.

Nicolaou, who has a child with a disability, was not willing to relocate when Yeo invited him to come run an institute. But Yeo proposed a compromise: he asked Nicolaou to recruit his own No. 2 to run the institute and Nicolaou would come to Singapore occasionally, offering his expertise for the most part remotely. Nicolaou could maintain his chairmanship of the chemistry department at The Scripps Research Institute in La Jolla, Calif., along with his laboratory there, and his appointment as a chemistry professor at the University of California, San Diego.

With this offer, Yeo had him hooked.

“You can’t say ‘no’ to him — he’s irresistible,” Nicolaou said.

Benevolent Kidnapper

Yeo refers to himself playfully as a “kidnapper of talent.” An engineer by training, he reads voraciously, consulting Singaporean doctors when there is something he does not understand in a scientific journal. Sydney Brenner, a South African...
biologist and 2002 Nobel Prize winner, helped Yeo compile his initial list of whales to recruit.

In addition to the professional rewards, Yeo could offer an attractive international experience. Singapore has a reputation for efficiency and is a melting pot of cultures, including Indian, Chinese and Malay. Yet English is the dominant language, and Westerners do not tend to experience the culture shock that occurs elsewhere in the region; Singapore is often referred to as “Asia lite.” In a 2009 ranking by HSBC Bank International of the 10 countries worldwide that are most hospitable to expatriates, Singapore was eighth.

Yeo is also sensitive to the role that family plays in making overseas assignments successful. David Lane had two teenagers when Yeo first approached him and was not ready to move. In response, Yeo offered him an advisory role, supervising the Institute of Molecular and Cell Biology. After both children had gone to college, Lane and his wife, Birgit, also a scientist, came to Singapore in 2004.

**Keys to Retention**

Yeo does not equate physical presence with star performers’ commitment or productivity.

“So long as they’re running the institute well, I don’t care where they are,” he said. Managers who demand that their recruits “be at their feet like slaves of the pharaoh of Egypt won’t get talented people — they’ll get slaves,” Yeo added.

Yeo acknowledged that this approach to managing talent depends on a high degree of loyalty and adherence to the honor system, but said it has worked in most cases. Still, there is no tenure — scientists are reviewed every three to five years. And those who do not measure up are let go. Scientists at the Biopolis are aware of a major U.S. university that had its funding from A*STAR cut because it did not deliver on its goals and milestones. And one institute director was fired for not following the rules on human experimentation, which are just as strict in Singapore as in the United States and Europe.

Although some recruits have become Singaporean citizens, that is not one of Yeo’s goals. Nor does he aspire to build a team of scientists that is 100 percent Singaporean. Ideally, 50 percent of the scientists would come from other countries, he said. An international team provides links to overseas networks and “keeps local people on their toes,” Yeo said.

Yeo has been known to occasionally ask recruits whether they are happy; he realizes that those who are not, will not stay. The key to retention is to “make sure these people feel wanted and valued,” he said. It is the soft side of nurturing talent that cannot be measured in dollars and cents.

The global financial crisis has expanded the talent pool for Singapore. Young postdocs are finding job opportunities is here the main language, so they don’t suffer the culture shock that occurs elsewhere in the region; Singapore is often referred to as “Asia lite.” In a 2009 ranking by HSBC Bank International of the 10 countries worldwide that are most hospitable to expatriates, Singapore was eighth.

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据诺华国际企业研究负责人Paul Herrling介绍，诺华热带疾病研究中心2003年进入新加坡，当时的目标是在肺结核、疟疾和登革热最猖獗的地方，开发出用以治疗这些疾病的药物。这项任务不仅需要熟悉分子生物学，还需要了解当地文化，因为它可能会影响疾病预防工作的进行，影响该地区医生的想法和“医生们的用药习惯”，他接着说。新加坡可以为我们提供许多和当地人接触的机会——研究所里40%是新加坡人——这对来自世界各地的科学家们来说，这里还有旖旎的风光，Herrling说。

为了达到这一目标，诺华与新加坡政府展开金融上的合作，由政府提供营业成本的50%，并且10年内不收取该公司的企业所得税。根据协议，诺华公司拥有所有药物生产技术的专利权，而一旦公司决定不生产某一药物，新加坡可以第一个取得开发权利。研究所的一个主要目标是推出针对登革热的首例药物，登革热是一种以蚊子为病毒传播媒介，常见于新加坡等许多热带国家的疾病。在新一代疟疾类药物的研发上也已有了进展，新一代药物能够应付对于现存药物具有抗药性的疟疾菌株，Herrling说道。

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and “how doctors in the region think and use medication,” he said. Singapore offered access to local talent — 40 percent of the institute members are Singaporean — and an attractive environment for research scientists recruited from around the world, Herrling said.

In this endeavor, Novartis is a financial partner with the Singaporean government, which has agreed to pay 50 percent of the operating costs and suspend corporate income taxes for 10 years. Under the arrangement, Novartis owns the patents on any drug production technique, but if the company decides not to produce a particular drug, Singapore is first in line for development rights. A major institute goal is to create the first drug for dengue fever, a mosquito-borne virus present in Singapore and many other tropical countries. And there has been progress on a next-generation malaria drug to treat strains that are resistant to existing remedies, Herrling said.

A more immediate and unanticipated payoff for both parties has been two $20 million grants that Novartis was awarded for research in Singapore. One, to fund malaria research, was awarded by the Wellcome Trust, a charity in the United Kingdom. The other, for tuberculosis research, came from the Bill & Melinda Gates Foundation. In addition to bringing money into the country, these grants have created jobs, Herrling said.

Lately, Singapore has faced some competition for talent from China, which is trying to lure back some of its best native-born scientists who have been educated in the United States, Herrling noted. Novartis is currently setting up a research facility in Shanghai, much larger than the one in Singapore, to focus on certain cancers that are more common in Asia than in other parts of the world.

合作环境

无论是医药园的实体设计还是园区内的各种活动，都旨在促进来自不同行业和不同学术界的科学家们跨学科的思维碰撞。所有的大楼都坐落在一个公园般的场所内，彼此间阔步即可抵达，并由人行天桥相连接。科学家们更像是一个个他们在实验室研究的对象——分子——总有机会撞见对方，有时候四处走走就能遇见，更多的时候，是在就餐时喧嚣的医药园餐厅和新加坡传统美食广场碰见。

对于东南亚美食爱好者来说，新加坡就是个美食天堂。许多外国科学家俨然已成为当地的美食家。“许多合作是在餐桌上达成的，” Herrling说。

新加坡礼来药物发现中心(该中心在医药园占地面积达50,000平方英尺)常务董事兼研发长 Jonathon D. Sedgwick 说，不同的研究机构术业有专攻，这也营造了一种激发头脑的学术氛围。经常有学者来此进行公开演讲——这是作为独立经营实体的医药公司所不能复制的做法。

这里也鼓励更多的正式合作。虽然每个研究所有它自己的工作进程，但其中有一部分是能够互相合作的。
Collaborative Environment

Both the physical plant of the Biopolis and activities within the community are designed to foster the exchange of ideas between various disciplines and between research scientists from industry and academia. All the buildings, situated in a parklike setting, are within walking distance of each other connected by skywalks. Like the molecules that are the subject of their laboratory work, scientists have occasion to bump into each other, either in the course of moving about or, more often, in the Biopolis’ restaurants and traditional Singaporean food courts that bustle at mealtimes.

For lovers of Southeast Asian cuisine, Singapore is a gastronomic delight, and many international scientists have become enthusiastic connoisseurs of the local cuisine. “A lot of great collaboration is being done over lunch,” Herrling said.

The presence of various research institutes, each with its own specialty, also creates an intellectually stimulating academic atmosphere, said Jonathon D. Sedgwick, managing director and chief scientific officer of the Lilly Singapore Centre for Drug Discovery, which occupies 50,000 square feet of space at the Biopolis. There are frequent lectures by guest speakers, all of which are open to the public — something that pharmaceutical companies could not duplicate if they were operating as standalone entities.

More formal collaborations are encouraged as well. Although each institute has its own agenda, a few of them might...
Josh Lerner, a professor at Harvard Business School, called Singapore’s emphasis on human capital a “refreshing contrast” to the norm.

work with each other and with pharmaceutical companies towards a common research goal. In this respect, relationships between academics and companies are “very positive,” said Swain. An expert in translational medicine, the specialty of turning laboratory discoveries into practical drugs or therapies, Swain noted that every laboratory breakthrough must go through a drug company before it can benefit the patient. By working with pharmaceutical companies, research scientists are in a better position to ensure that their discoveries are accessible to their ultimate customer. As in the United States, there are conflict-of-interest rules in Singapore that prevent researchers from having direct contact with patients.

Next Steps

With young scientists in the scholarship program and experienced ones to train them, both Yeo and the Biopolis are taking the next logical steps. Yeo left A*STAR in 2007 to head a new government agency, the Standards, Productivity and Innovation Board, known as SPRING Singapore — a richly funded version of the U.S. Small Business Administration. Through grants, it will finance start-up enterprises, encouraging young scientists to commercialize their ideas.

Scientists recruited by Yeo said their lives have not changed since his departure, and he maintains his influence and friendships with many of them. But it is also clear that the Biopolis is going through a transition, from the heyday of talent buildup to a more mature stage of collaboration and striving to realize returns.

Lim Chuan Poh, who succeeded Yeo as the head of A*STAR, has a math degree from Cambridge but spent most of his career as a soldier, rising to the level of chief of defense — Singapore’s counterpart to the chairman of the U.S. Joint Chiefs of Staff. Before joining A*STAR, he did a four-year stint in the Ministry of Education. Lim said A*STAR’s next focus will be fostering collaboration both globally and within Singapore.

It involves “a hugely complicated process to ensure that all these different capabilities can work together,” he said.

Lessons From the Biopolis

On many levels, Singapore’s Biopolis provides a valuable model for private companies that want to maximize the eco-
Just a handful of countries worldwide have seen a boost in international tourism during this recession: • Australia • Hungary • South Korea • Sweden • Taiwan

Source: World Tourism Organization, 2009

Europe has hardly distinguished itself in the production of management gurus. America has a vast army of showmen ready to fly anywhere in the world. Asia has the venerable Kenichi Ohmae and any number of younger Indians and Chinese. But Europe has produced remarkably few world-class thinkers, certainly fewer than its economic weight and intellectual distinction would justify.

One of the few Europeans who has undoubtedly made it into the first division of gurus is Charles Handy. Handy has made an entire subject his own — the fundamental changes in the nature of work over the past few decades. In the late 1970s he noticed that work was being re-invented as seldom before as companies slimmed down in order to deal with global competition and trade unions lost their power. Managerial capitalism was being replaced by something different — more entrepreneurial and more unpredictable — and workers were having to adjust themselves in consequence. Handy looked at these changes from the point of view of the worker: the company men who had spent the past few decades getting on the 7.10 for Waterloo every day and were now being ‘downsized’ and ‘outpaced’. And he wrote about his chosen subject with unique panache — mixing vivid images with literate writing and broad themes with an acute eye for detail.

A flavour of Handy’s writing can be discerned from two of his best images — the ‘shamrock organisation’ and the ‘portfolio life’. He argues that today’s organisations resemble nothing so much as ‘shamrocks’ — with the three leaves representing core employees, subcontractors...
and temporary workers. He also argues that today's workers are destined to live 'portfolio lives'. As biological life expectancies increase while organisational life expectancies contract, workers are destined to live more than one professional life. They may well shift from one vocation to another; they will certainly spend some time as 'contract workers' as well as 'core employees'.

You might have thought that Handy would have produced plenty of imitators across Europe, given the success of his writings and the attractions of management guru-dom as a career. Handy eschewed the pseudo-scientific jargon that prejudices educated Europeans against management theory. He proved that you can write about business with references to Aeschylus and Aristotle rather than just Balanced Scorecards and Economic Value Added. Handy played a leading role in establishing business studies in the United Kingdom — he was one of the founders of the London Business School and he later became a sort of live-in management guru at Windsor Castle, explaining management to the British establishment.

Handy has chosen a subject at the very heart of European civilisation — the evolution of work and the balance between 'work' and 'life'. Europeans are less enslaved by the Puritan work ethic than Americans. They are also less convinced that economic growth is the ultimate measure of the good life. They have awarded themselves generous holidays (try getting anything done in France in August) and generous protections against profit-maximising companies.

Europe's approach to the labour market, which Americans have long regarded as a prime example of the enfeeblement of the Old World, has also stood up to the recession remarkably well. Output fell far harder in Germany than in the United States during the worst months of the economic crisis. But Germany's unemployment rate barely rose, and consumer spending remained relatively robust. Europe also made imaginative use of job subsidies, paying people to stay in jobs, albeit with lighter workloads, rather than throwing them onto the dole. There are certainly risks involved in this strategy: in the long run it makes it difficult to transfer workers from declining industries to rising ones. But in the short term it seems to have helped Europe to weather the shock of recession better than America: consumer demand is holding up better and workers are keeping their skills sharp rather than idling on the unemployment lines.

This is, in short, an area in which Europeans have a distinct comparative advantage. Yet the number of European business writers who have devoted themselves to ploughing Handy's furrow is remarkably small. European business schools have failed to embrace the subject with the enthusiasm that it deserves. The London Business School devotes no more time to studying 'shamrock organisations' or 'portfolio lives' than the Sloan School of Management, for example. Some of the best European writers on work have nothing to do with management theory. I challenge any manager to produce a useful insight from Keith Thomas' 'Oxford Book of Work' or from Alain de Botton's recent book on 'The Pleasures and Sorrows of Work', erudite and entertaining though both books are.

Handy has blazed a trail only to find that his fellow European management thinkers have decided en masse to walk in the opposite direction.

Happily, Handy is not entirely alone. A few writers are following on his trail. None of them can be described as 'the new Charles Handy'. They lack his literary flair and his eye for the big picture. But they all recognise the importance of the subject that he made his own — and they all realise that work is likely to be redesigned even more dramatically in the next 30 years than it has been in the last.

Richard Donkin chronicled changes in the nature of work and employment in a weekly column...
for The Financial Times for 14 years. He has also published two informative books on the subject — ‘The Future of Work’ (2010) and ‘Blood Sweat and Tears: The Evolution of Work’ (2002), which is being republished under the blander title ‘The History of Work’. He is more of a magpie than an eagle: you read him for nuggets of information rather than for panoramic views and grand theories. But his nest is nevertheless full of fascinating objects, and his views are invariably sensible.

Donkin brings an historical perspective on recent ‘revolutions’ in the workplace. He points out that many cutting-edge management ideas, like concern for workers’ health, are in fact old hat. In the 1920s and 1930s many successful companies built playing fields and social clubs in the name of efficiency and loyalty (and before that, of course, British public school masters based their regimes on the motto ‘mens sana in corpore sano’).

Donkin is also relentlessly sensible — perhaps not the most exciting of qualities but nevertheless an invaluable one in an area dominated by faddists and snake-oil salesmen. He points out (just as Charles Handy did a generation ago) that the life of a ‘portfolio worker’ is far from easy. Freelancers relish their freedom. They are delirious about the fact that they no longer have to get on that 7.10 to Waterloo every day. Donkin expects their numbers to increase as people revolt against the relentless demands of today’s corporations and the soulless language of ‘scientific management’. But they are constantly worried about where the next paycheck will come from.

Work tends to take the form of pre-industrial agriculture — too much work interspersed with too little and feasts interspersed with famines. They also find that freedom can turn into anomie and self-direction into loneliness. They miss the casual bonhomie of office life and the discipline imposed by a daily routine.

Above all, Donkin understands our ambivalent attitude to work — how we regard it simultaneously as a blessing and a curse, indeed the foremost of all curses, imposed upon Adam for his disobedience in eating the apple. We resent the fact that we constantly have to check our BlackBerrys for messages even as we try to relax in the evenings. But if the BlackBerry fails to deliver its messages then we suffer from a sense of ennui. He quotes Philip Larkin’s great poem ‘Toads’ about the ‘sickening poison’ of office life. But he also reminds us that Larkin wrote a later poem, ‘Toads Revisited’, in which he acknowledges that he rather likes his ‘in-tray’ and his ‘loaf-haired secretary’.

Avivah Wittenberg-Cox writes about a subject that Handy tended to gloss over — the growing role of women in the labour market. Wittenberg-Cox argues that the world of work is being reshaped by three massive forces — women, weather and the Web. Fifty years ago, women had only a marginal role in the labour market. They performed menial jobs — Larkin’s ‘loaf-haired secretary’, for example — and left work as soon as they married. Today they make up about 50% of the work force in America and most northern European countries, take 80% of consumer
Female CEOs in the U.S. earned just 58% of what their male counterparts did in 2008, and their compensation packages were slashed three times as much as the pay packages of their male peers (a median of 18.5%).

Source: Corporate Library, 2009

Women earn less even at the top

Female CEOs in the U.S. earned just 58% of what their male counterparts did in 2008, and their compensation packages were slashed three times as much as the pay packages of their male peers (a median of 18.5%).

Source: Corporate Library, 2009

Drop out of the full-time work force in their 30s — they are ‘off ramped’ onto the ‘mommy track’, as the jargon has it. It also means that the upper ranks of corporations and professional service firms are still dominated by men. The further up the corporate world you go, the more female-free it becomes.

Wittenberg-Cox points out that some European countries have produced innovative solutions to this problem. Norway threatened companies with legal sanctions if they failed to increase the number of women on boards. France has been notably successful in keeping its most successful women in work. But in general, Europe has been behind America in terms of promoting highly successful women. Two of the most prominent female bosses in Europe, Pearson’s Marjorie Scardino and Anglo American’s Cynthia B. Carroll, are Americans. Only 9% of Europe’s board directors are women, compared with 17% in America.

Wittenberg-Cox argues cogently that women will continue to make dramatic advances in coming decades. The intensification of the war for talent, as populations age, jobs become more skill intensive and the backlash against immigration grows, means that companies have an ever greater incentive to make better use of their female employees. The growing complexity of careers in general, as working lives become longer and Generation X-ers of both sexes reject the treadmill for a diet of ‘work bingeing’ followed by long holidays, means that women will pay a lower price for taking several years out of their jobs to have children. Some of the world’s most innovative companies, from giants like IBM and Sun Microsystems to start-ups like the management consultancy Eden McCallum, are already creating more female-friendly environments, where women can craft careers that are compatible with their (changing) domestic commitments.

But she is less convincing when she argues that women are better suited than men to deal with the next generation of management problems, and that tomorrow’s successful companies will have to become ‘gender bilingual’ if they are to succeed. This argument rests on two big assumptions — that women are genetically different from men (more collaborative and more empathetic) and that those psychological differences will be a source of competitive advantage in the new economy. But both assumptions are questionable. There are lots of different types of women just as there are lots of different types of men: Lady Thatcher could hardly be accused of being a touchy-feely type. And there is no solid evidence that companies are any more dependent on collaboration and empathy than they ever were. Companies have always depended on collaboration to succeed (the term ‘company’ comes from two Latin words ‘cum’ and ‘pane’ meaning breaking bread together). And companies that give the appearance of being soft and fuzzy such as Google are in fact ruthlessly competitive when it comes to choosing talent and dealing with their rivals.

Donkin and Wittenberg-Cox are both perfect exemplars of Charles Handy’s ‘portfolio workers’. Donkin turned himself into a freelancer in 2002 when The Financial Times decided that it no longer needed him. Like most freelancers, he depends on getting work whenever and wherever he can — writing a monthly column for Human Resources magazine, doing as much consulting and lecturing as possible, and also writing about travel, fishing and sailing.

Wittenberg-Cox operates at the intersection of consultancy and political activism. She is CEO of 20-first, a gender consultancy that specialises in teaching companies how to become ‘bilingual organisations’ that can make full use of what she regards as women’s distinctive talents; she is also a ubiquitous writer and lecturer.

These portfolio workers could hardly have chosen a better subject. The world of work is being redefined by a maelstrom of forces — the ageing of the population, the war for talent, the pressure on companies to remain slim, the growing diversity of the population. The redefinition of the world of work will have all sorts of consequences for everything from pension arrangements to education and training. Yet for the most part, the European management theory industry has been remarkably reluctant to build on its comparative advantage in this area. European business schools are still too preoccupied by turning their subject into a hard science to bother with soft subjects such as work. And European business gurus are still obsessed with competing with their American rivals to produce the next big idea about strategy or core competences. This is a pity: in management, as in so many other areas of life, supposedly soft subjects can often be the most challenging and the most rewarding.

Adrian Wooldridge is co-author of several books and is the management editor for *The Economist*. He is based in London.
Never interrupt your enemy when he is making a mistake.
—Napoleon Bonaparte

About the time we can make the ends \textbf{meet}, somebody moves the ends.
—Herbert Hoover
An Interview
With Daniel Vasella,
Chairman and
Chief Executive,
Novartis
Daniel Vasella, chairman and chief executive of Novartis, was trained as a physician and practiced medicine for eight years before joining Sandoz, a Swiss drug maker, which merged with Ciba-Geigy in 1996 to form Novartis. Vasella was Novartis’s first president and became its chairman in 1999. In January 2010, Novartis, the world’s third-largest pharmaceutical company in sales, agreed to buy a controlling interest in Alcon, a Swiss eye-care firm, from Nestlé, subject to the approval of the shareholders and the companies’ boards.

Vasella’s strategy for Novartis has been bold. Since becoming chairman, he has sold the company’s agriculture businesses, its medical nutrition businesses and its baby foods division. During that same period, he spent $59 billion on acquisitions (not including the January purchase of Alcon’s shares) to create a company that produces prescription drugs, vaccines, generic medicines and over-the-counter products. In addition, he has invested heavily in research and development.

Perhaps most controversial for the chairman of a Swiss-based firm whose oldest antecedent company was started in 1758 was Vasella’s decision to move Novartis’s research center from Basel to Cambridge, Mass., to be near universities like Harvard and M.I.T. In addition, in November 2009, Novartis announced a $1 billion investment in research and development and the creation of a Shanghai research center.

Vasella is a man of many parts. He has been called a risk taker, a strong advocate for cutting-edge research and development, a people-oriented manager and a passionate family man; he has been observed taking calls from his children during senior-level business meetings.

Vasella spoke with Joel Kurtzman, editor in chief of Briefings on Talent & Leadership, about Novartis and about some trends he sees for the coming decade.

People-Centric Science
Briefings: The world has just come through a very turbulent decade. What do you think is in store for the next one?

Vasella: Looking at things we can see today, I would say the global economy is moving toward the East. Certainly, if trade and growth patterns continue, we will have Asia, probably led by China, becoming a major force in economic development, economic power and, as a consequence, military and political power too.

When you say economic power, are you talking beyond manufacturing? Are you including areas that you’re involved in, which are highly research oriented?

Vasella: Yes. The fact is that with growing economic power, you also have more investments being made in the deeper education of people in Asia. The Chinese government, for example, is focusing more on educating young people in the sciences and in technology. So while we in the West have seen a decline in the attractiveness of these areas to students, in other parts of the world the natural sciences are seen as areas for the very highest levels of achievement. This is not just China. In India, for example, if you have a child who is studying medicine or engineering, it is viewed very positively. As a result, the number of scientists from this part of the world will be increasing. As a matter of fact, in the United States, which is still at the forefront of the sciences, we are seeing growing numbers of scientists from Asia.
Once an industrial complex, Novartis’s new campus in Basel is for knowledge workers. It has outdoor parks and a building designed by Frank Gehry.

You recently moved the research headquarters of Novartis from Switzerland to the United States and built up a new research center. Do you foresee making similar investments in R&D facilities in Asia as well?

Vasella: We’ve already announced it. We are investing $1 billion in a new state-of-the-art R&D facility in Shanghai and are planning to increase the number of scientists there from about 180 currently to 1,000 researchers. So, we are already building up in Asia.

So you foresee Asia’s continued economic and research rise during the next decade?

Vasella: Yes. What is happening is that we have created — or are in the process of creating — a kind of research and development triad, where we have the research headquarters in the Cambridge/Boston area in the U.S. The main reason for that is the availability of talent and the closeness to top academic institutions like Harvard and M.I.T. And then we have our traditional research center for Europe in Basel, Switzerland, and now, in addition, for Asia, we have our center in Shanghai.

Do researchers from each of these areas collaborate with one another, or do they work independently?

Vasella: They collaborate across the continents. This is made possible through a very deep penetration of information technology into the area of biomedical research. Bioinformatics allowed us to develop very sophisticated tools to understand biologic systems, to discover new targets and drugs and model their interaction. At the same time, informatics helps us to conduct research globally as communication tools have now permeated our entire organization, including the lab benches.

What are some other trends you see developing?

Vasella: We are observing an aging society worldwide. And as people age, they are more often chronically ill. While this is more pronounced in the Western economies, it is happening everywhere. In addition, there is a desire among people to retire early, rather than later, which means a bigger portion of the population is living off the work of others, rather than from their own work. This is creating economic pressures that are not sustainable.

What are some of the consequences we’ll see from the aging of the population?

Vasella: The factor that is linked most closely to aging and the chronic diseases that accompany it is ever-increasing health care costs. So, I see two fundamental challenges emerging. The first one is that we need to keep populations healthy. In the U.S. first, but also in Europe and in urban centers around the world, an increasing percentage of the population is becoming obese. With obesity you have a lot of secondary diseases — diabetes, hypertension and so forth.

These are growing trends. In the U.S., recent studies show the direct and indirect costs of obesity are huge, reaching yearly costs of almost $500 billion. In fact, obesity, diabetes, cancer, dementia and cardiovascular diseases are projected to create more than $1 trillion in annual costs each by 2025.

So the crucial question, in my view, is not, “How do you cure obesity?” because that’s very difficult, as we all know. It is, “How do you prevent obesity? How do you keep people fit and trim rather than trying to get them to lose weight, which is a real challenge?”

On a global basis, how will you make certain Novartis’s innovation engine continues to work fully on all continents?

Vasella: First, the human resource is still our most critical ingredient for success. You have to have technology, and you have to invest in it. And, of course, we have to focus on science, because science is the foundation of innovation. But we also have to understand what our customers need. Patients can articulate needs, but seldom solutions. So, in highly technical fields, the people doing the most complicated scientific work sometimes don’t know enough about the patient’s reality.

It is therefore important to bring scientists together with the needs and realities of the patient. We have to make it possible for our scientists, through empathy and imagination, to understand what’s going on with patients. And then, thanks to our scientists’ knowledge, they can embark on finding potential solutions. That’s what I mean by the human resource.

Now, this is a very important point. Scientists have to understand fully what the patient needs. But “understand” is not the right word exactly. Scientists have to have an emotional, intellectual, scientific and human understanding of the patient’s needs. They need to understand the impact they have on patients’ lives — on individuals. This is true for all our employees and as we rationally and emotionally understand this, our intrinsic motivations become much stronger to do an excellent job. We identify ourselves with common goals that drive the overall corporation.
And technology? How does that factor in?

Vasella: When you work across geographies, you can — through e-mail and other technologies — instantly communicate. We can do it by voice. We don’t have to see each other, but we can do that too through Skype and other technologies. These factors improve how we work together, real time, twenty-four hours a day, seven days a week. We really can collaborate across continents.

In our labs, scientists can communicate their data across the globe without removing their gloves. They can compute very complex correlations, simulate molecular structures and look at the best possible chemical structures of potential drugs. All of this and more is now possible. We can now run models all day long, all night long, all week long. And when you combine this with robotics, then you have experiments that can be made by a few people that formerly would have needed armies of people. So these are all tools where information technology, combined with robotics, for example, and other inventions have facilitated, accelerated and opened up new fields in science that we couldn’t really tackle before. These are some of the dimensions in which IT has changed the way we operate.

Do you foresee this accelerating in the new decade?

Vasella: I don’t know about acceleration, but you are right. That’s what history has taught us. We are, of course, always worried about the future. We are so dependent on innovation and our innovation capability. It is absolutely vital for us to be able to again and again create better medicines and vaccines. What I’m seeing now happening in our research efforts is that we have a richer pipeline than we ever had before. So I’m personally very optimistic that we will continue to push the frontiers further. We will tackle problems we would never have thought we could tackle in the past. So I’m fundamentally confident regarding the sciences, based on what I’m seeing.

As a CEO, how do you keep track of what your company does on a global basis?

Vasella: Well, that’s really two or three questions. One is: Can we keep track of the scientific developments that are taking place around the world and can we understand them? And my answer is, Only a very few people can, and I’m not one of them. The speed of development and the discovery rate makes it impossible for most to keep up with rapidly growing knowledge. For me, there is no way really of following closely, from a content perspective, what scientists are doing. So the questions then come up: How do you know what you need to know? And how do we know that we are on track?

There are several ways of tackling that. One is, for example, to have peer review processes within the company and then peer review processes with outside experts, who will, in detail, visit the research programs and talk to the scientists, and serve as evaluators and advisors, and sometimes as pupils of the scientists and report on what they see.

Second, you look at your leadership in science. I strongly believe that excellence and scientific and human credibility are very crucial and that if you have that, you can attract world-class talent. If you have really great talent, then the chances are that they in turn will attract really good people, and that gives you a better chance of succeeding in a systematic way.

And that’s what you mean by the human factor?

Vasella: Yes. The human factor and a capability factor. I think either you’re in a virtuous or a malignant circle. Good and great people attract better people. On the other hand, when you have weakness, then you attract weaker people. Now, that’s hard to prove, although most would agree. But eventually everybody finds out, namely the day you can look at the output, the results. And so you look at the number of new targets and programs, the number of positive proof-of-concept trials and eventually the number of regulatory approvals you get, and then you know. But this takes years.
In your field, the timelines are among the longest of any industry. And yet, you’re also required to be among the most innovative of any industry. Is that a difficult balancing act to manage?

Vasella: We have different degrees of innovation. We have breakthrough innovation. It takes longer, and it’s less predictable and more risky. But once you have a platform, you can derive new products from the platform, and then it becomes more predictable. And finally you have modifications of existing products, which may be relevant in the usage of a medicine but may not be great innovations. And that’s even more predictable. So you try to have a portfolio of projects with different risk profiles and different development timelines. The objective of a well-managed portfolio is finally a continuous stream of new and better products.

Your reputation is as a risk taker. Aside from the portfolio approach, how do you look at risks as a leader?

Vasella: Let me first say that taking no risks may be the biggest risk of all. In the field of R&D, the biggest risk is not so much the internal programs, because we see their evolution and we expense as we go. The more risky undertakings, in my view, are when we license-in compounds, where we don’t always have full knowledge and where we may be missing some facts that the seller knows or doesn’t know. These principles are also applicable to our commercial activities, where it is especially risky to enter areas you don’t know and fully understand. But if you don’t take any risks, you don’t make money.
So you license-in research?
Vasella: Yes. We are in an inside/outside and outside/inside network, where knowledge is being exchanged and contacts are ongoing. I think these contacts are very critical for the development and absorption of knowledge. It's not an option not to be in touch with the outside world. In-licensing I look at as a complementary factor, not a primary driver. It can be a good addition, but it never should replace organic growth and organic innovation. However, it is also true that sometimes there is a paradoxical thing to be observed — that the internal researchers are tougher with the external projects than their internal projects. They think that if you license-in, then the external project will get the budget they want. So that is a potential danger of being misled, which one has to be aware of.

How do you deal with that?
Vasella: You have to make sure that internal projects are evaluated on a peer review basis and that the people are as objective as one can be. But I think one shouldn't have illusions. Occasionally, people make mistakes and make misjudgments, myself included. That's our human nature. We can not avoid it completely. It's like aiming for perfection in oneself. That's not obtainable. Everybody has weaknesses. It is, however, crucial to recognize where we have our weaknesses and accept this reality.

And yet, weaknesses are weaknesses. How do you compensate for them?
Vasella: Where we have weaknesses, we have to try to compensate through other people. That's one reason, by the way — and it's only a small reason — that I think continuity of leadership is so important. You build complementary leadership teams. It's important to get that right. You need continuity in business, and you need it in the sciences. Not too short, but not too long either.

It's interesting that you lead a scientifically based company and that you use words like empathy and the human resource as they relate to research. Where does that come from?
Vasella: It comes from my deep belief that in order to deal with each other in an adequate way, we have to acknowledge the human factors in ourselves first and in others also. And we have to see those factors not as weaknesses, but as a reality, as a source of strength and also as a source of diagnostics. For example, your feelings in an employment interview can be very important. If you are interviewing a candidate and you become bored, that may be a sign that you cannot concentrate for a personal reason. Or that the candidate is not giving you the real story, that he is covering up something. Or you become impatient as you're getting lost in what he is saying because he is unstructured or repetitious, or that he is so obsessed that he goes from one detail to the next detail.

So when you have certain emotions, you have to try to understand. "Is it coming from me?" "Is it coming from the other?" And if it's coming from the other, "What does it mean?" And, "What is the other person doing to me?" And "How can I use that in order to understand the other person better?"

In addition, the whole question about how you relate to patients, when you're in this industry, is a deeply emotional one. You can take it from the commercial point of view. You can take it from a scientific point of view. You can take it from an emotional point of view. But the reality is that we have to think about what we do from a number of different perspectives.

Are different people oriented differently? Do some favor the rational and scientific, others the emotional, others the commercial?
Vasella: Yes. We all have inclinations, and most of us have the capability to develop at least an understanding of other areas of expertise than our own. This is important as we create very complex things, which can only be done through open collaboration across different knowledge areas. Some people are very skilled specialists; others have the ability to switch from one area to the other.

As a leader of a company, do you select for a certain type — say, rational or scientific or commercial — for senior positions? Or do you select for adaptability? Someone who can move between different states?
Vasella: That's an interesting question. I first look for competence from a technical point of view, because that's a fundamental condition. Second, I look at interpersonal competence. So, the question is, "Can this person interact? Can they create a link when you talk to them? Is there an emotional contact or not? Is it somebody who creates a certain bond or not?" And without going into an analysis of how they do it, the question is, "Are they capable of doing it?" And, of course, I look to see if they have humor. "Can they laugh about themselves? Do they understand a joke?" This helps you understand the functioning of the person and whether they have emotional baggage. But then I look for intrinsic motivation and integrity; both are a must.
Which of the types you described do you favor? People who are emotional or scientific or commercial?
Vasella: All of them. They all have importance. If somebody is a researcher, I’m not asking him to be a commercial person. That’s not the aim of the exercise. But they have to understand that there are some economic realities, and that money is not endless, and that there is reality to the budget and that we all have to work within constraints.

Novartis has a campus in Basel designed by some of the world’s most creative architects, like Frank Gehry. The campus has been heralded for its inventiveness.
What is the reason for devoting resources to a campus like that?
Vasella: Our first intention was to create an environment where human beings are at the center, not machines. We come from a chemical production history. So it’s a transformation from an industrial production site to a knowledge center where human beings, not machines, create knowledge and value. So, we asked, “What kind of environment do we need in order to achieve that, to make people understand their importance?” The answer was that to create knowledge, we need an environment that is open, because communication is so important and transparency and openness are so important, and where people feel at ease.

So, the first conclusion was that we wanted to go from individual offices, which we historically had in Basel, to open-space offices. Not cubicles, but open floors. We call it “multispace” because we have conference rooms and also small rooms, where people can have one-on-one discussions that will not be overheard and where they can have confidential telephone calls. But, basically, we wanted to foster cross-functional, cross-individual integration.

In addition, because we are dealing with knowledge workers, we had to ask what people with high levels of education and knowledge are looking for. Do they want to go to a canteen where they are being served mass food? Or do they prefer to go to places like restaurants? The answer is obvious. They much prefer to go to restaurants — and not to the same restaurant every day. From the point of view of sitting in restaurants, you ask, “What do we want to signal? Do we want to signal high standards? Do we want to signal that we pay attention to quality in everything we do?” And we do.

Then you have to ask, “What are the needs of double-income couples or singles?” Grocery shopping was one of them. And so we added a grocery shop, which now is in high demand, and postal services, and banking services and a pharmacy.

And many of our people have children, so child care is a must. Historically, we didn’t have children on the campus. But why shouldn’t parents be able to bring children on the campus over lunchtime? Of course, there were some concerns about liabilities. But the reality is that it is less dangerous than walking in a city. And, for the first time this summer, I saw parents with strollers and small children and larger children, all walking around the campus. It was great.

We also think about the outside space. Where do people meet? So the green spaces and parks play a big role. During the mild period of the year, you can now see associates who take their computers and work outside with wireless. Or you see little groups of three or four people sitting outside around a table, working or having a cup of coffee under the trees, debating and discussing. The new campus creates a much less rigid kind of environment.

We also decided to integrate art and architecture where practicable. It may not be for everyone, but a majority of people have responded very positively. And the acceptance rate has been extraordinarily high, and the feedback is very positive. So, in the building where the people work who are most critical to what we do, the positive rating was 70 percent.

The images of the campus show something that is remarkably well-designed and imaginative.
Vasella: We had 100,000 visitors last year. And the feedback is often, “How can I get a job here?”
**The DECADE Ahead**

New beginnings set off a rash of prognostications and the start of a new decade, the second of the new millennium, is no exception. Indeed, the urge to predict is particularly strong now, given how much of a washout the first decade turned out to be — all the problems of Pandora, without the makeup. No one needs to recount the last 10 years. Suffice it to say, human tragedy, war, economic setbacks, the rise of Paris Hilton and the fall of Tiger Woods sum it all up. So, as we move into what could be a new beginning (or not!), it’s interesting to note what the experts think might lie ahead.

**Africa, the perennial land of famine, may be the next breadbasket.**

Europe, where France banned the head scarf in state schools and the Swiss outlawed minarets, will emerge more tolerant of Muslims.¹

“**By 2020, genetics and brain simulation will be giving us personalized prescriptions for marriage, lifestyle and health care.”** ²

— Henry Markram, director of the Blue Brain project in Switzerland

**Movies will be simultaneously released on DVD, in theaters and online.**³

**Goldman Sachs projects** that the United States will rack up $10.5 trillion in cumulative budget deficits over the next decade.⁴

**The International Energy Agency says** the world will spend $26 trillion to meet demand for green energy through 2030.⁴

**McKinsey & Company estimates** that advances like better lighting and energy-management systems will cut expected energy demand through 2020 by 23 percent.⁴

**Brain chip implants could be a turn-on.** You might be able to control televisions, computers and phones just by thinking of something — provided you’ve had a wireless chip sensor implanted in your brain. You probably won’t be able to write a complex e-mail message just by thinking it, but you might be able to control a mouse.⁵

**By 2030, the world’s population will have grown by around 20 percent. Only 3.2 percent of this growth will come from the more-developed world. The less-developed regions will grow 31 times faster than the more-developed ones.**⁶

**By 2020, 11.8 percent of China’s population will be over 65.**⁶

**In 2020, most banking transactions will be done on mobile devices.**⁶

**By 2020, 3-D Skyping and teleconferencing will be ubiquitous.**⁶

“**Technology will infiltrate every aspect of our lives. The mobile phone will be a gateway to global communications, and link seamlessly to the Web and every screen in homes and offices. Supermarkets will automatically restock your Internet-connected fridge. Expect to feel watched — not by government, but by big corporations.”** ⁷

— Matt Warman, Daily Telegraph consumer technology editor
“There are now three times more mobile phone subscribers than Internet users. In the decade ahead, mobile and Web will collide to fulfill the promise of technology: helping people help themselves. The open exchange of information will lead to a more informed, engaged, and more empathetic global citizenry.”

— Biz Stone, co-founder, Twitter

“It will be the hottest decade ever, as global warming continues, though individual years will vary. Renewables will boom, especially solar power, as new technologies and falling prices kick in. Nuclear power will make no real contribution; any new reactors will not come on stream before the end of the decade. Evidence that mobile phones endanger health will increase. Continued shrinkage of the Arctic icecap could provide the first climate ‘tipping point’.”

— Geoffrey Lean, Daily Telegraph columnist

**DVDs will be as old school as videocassettes** were in 2010. Blockbuster Video, Netflix and standalone DVD rental outfits will be out of business, replaced by online on-demand movies and TV programs.

**Outdoor smoking will be banned** in most places, as the political strength of the dwindling number of nicotine addicts wanes.

**The proliferation of video** and the ubiquity of volunteer exhibitionists will have nearly destroyed the pornography industry.

**Newspapers will not have Web sites.** Web sites will have newspapers (as well as robust video and audio channels). Every major media personality will generate content on all platforms.

**By 2020, India and China** together will add 300 million people, the population of the United States.

**China has set a goal** of producing 15 percent of its energy from nonfossil fuel sources by 2020.

**By 2020, researchers will have discovered** many more genetic variations that substantially raise the risk of common conditions, like diabetes, heart disease and psychiatric disorders, and it will be possible to detect these in embryos. This will feed much wider interest in embryo screening, which is currently used by only a few couples each year, and encourage fresh controversy over the ethics of designer babies.

**By 2020, Internet search content** will be a mix of text, speech, still and video images, histories of interactions with colleagues, friends, information sources and their automated proxies, and tracks of sensor readings from global positioning system devices, medical devices and other embedded sensors in our environment. A majority of search queries will be spoken, and an experimental minority will be through direct monitoring of brain signals.

**Fresh water will be the source of more international friction than oil.**
Giving Boards Their Voice

The chief communications officer of a Fortune 50 company was quick to say, “No thank you,” when an independent communications advisor offered assistance to the company’s board and the lead director.

“You raise some important challenges in your memo, without question,” the communications officer said in her e-mail response to the consultant. “We believe our staff, particularly our general counsel, already works closely and well with our board to ensure we exercise best practices in corporate governance. And when there are specific media and communications opportunities, I would be engaged as well. So, at this time, I don’t see a need.”

The communications officer might have been wiser to give the overture a second thought. In this period of intense board scrutiny, when boards must assert their independence and authority, getting outside help may have a value far greater than this executive realized. It no longer is enough for boards to refrain from communicating or to communicate only through the legally required proxy, 10K and 8K documents. They must do more to show they are representing owners and holding management accountable.

Operating Behind the Scenes

Many board members believe that it is entirely appropriate for them to funnel their communications through management and are puzzled by suggestions that they are incommunicative. Some still operate as members of old-boy networks and do not believe they answer to anyone.

“I cannot see any reason for the board to ever communicate. The board’s job is to ensure that management is communicating,” said one bank chairman who sits on three Fortune 100 boards and requested anonymity. “We...
aren’t seeking publicity.”

To other board members, the 8K, the 10K, the proxy and other governance documents that boards routinely file provide more than ample transparency.

Still others see perils in independent communications. Some, for example, are concerned that by speaking independently, they will inadvertently run afoul of selective disclosure regulations that prohibit providing information to some members of the public, but not others.

“Many directors are reluctant to engage shareholders out of concern for Regulation FD and their ability to insure that the conversation does not cross the line,” said Bonnie Hill, lead director of Home Depot. She agrees that having a board-shareholder communication policy and media training are key ways to successful interactions. Defining the context and scope of the dialogue with shareholders is also important. She added, “I have never had a shareholder group ask something that was inappropriate. They are aware of Regulation FD. I think it’s important to listen and sometimes agree to disagree. We have learned so much talking to shareholders. It’s made us better directors.”

Some directors see dangers in boards being more open and consequently giving shareholders greater voice in board-related decisions. One former corporate executive and now a director on several boards, who requested anonymity, expressed concern over shareholder nomination of board members. Over the past several years, he said, he has seen “random” suggestions from shareholders for nominees that reflected the concerns of “painters and poets.”

Forces for Change

Despite widespread resistance though, forces are coalescing
to compel boards towards greater independence and openness in their communications. In large part, shareholder discontent, intensified by the recent financial crisis, has spurred government to press the issue.

A sense of voicelessness and helplessness has fueled the shareholder activism by major institutional investors during the past 15 years, according to Stephen M. Davis, executive director and lecturer at the Millstein Center for Corporate Governance and Performance at the Yale School of Management. These shareholders believe they lack access — to the directors and to information. This “under-representation” feeds some activists’ demands to be recognized as owners, whether in advocating for say-on-pay, majority voting or even in battling for board seats.

“The subject of board-shareholder communication, in terms of importance, is right up there with CEO compensation and CEO succession execution, which are being handled poorly and criticized severely,” says Fred G. Steingraber, chairman and CEO emeritus of A.T. Kearney and a director for 3i PLC in the United Kingdom and other boards. “Shareholder communication is an area where boards are too defensive and all too often reacting to events rather than proactively leading with more transparent and timely communication,” said Steingraber. He has observed that in the past 10-15 years, boards have changed from being largely led or driven by CEOs, to directors taking more control. Following the corporate scandals in the early ’90s, shareholders gained influence with victories on say-on-pay and majority voting. "Today, the government is taking control of boards, largely due to directors not building good relations with shareholders and all too frequently being too defensive and too reactive in their communication,” he said.

Pension funds see boards becoming more amenable to change. “Yes, we feel the need to remind them that they represent us as shareholders,” said Anne Sheehan, director of corporate governance of the California State Teachers’ Retirement System (CalSTRS), the second-largest public pension fund in the U.S. "Board members forget that. Yes, they may be nominated through an internal process but they need the shareholders' votes in annual elections to keep their jobs.”

SEC Chairman Mary L. Schapiro sees proxy access rules, which would facilitate shareholders nominating board candidates, as the way to give shareholders a greater say in choosing directors and a practical means of ousting boards. The SEC has postponed proxy access changes for the 2010 proxy season but has just changed the rules to limit when brokers can vote on behalf of shareholders. The new broker rules will also have an impact on board elections.

“I think this will get individual directors’ attention, especially if he or she is targeted by a no-vote campaign,” said Sheehan, referring to what are known as broker voting rules. “When it becomes personalized, it helps directors to understand the importance of reaching out and communicating.”

“Many directors began their board careers when directors were neither seen nor heard and it will take time for them to become accustomed to a more public role,” said Rich Koppes, former deputy executive officer and general counsel for the California Public Employees’ Retirement System (CalPERS). This shift — from behind-the-scenes advisors to highly accountable public figures — is a profound transformation that boards are only beginning to grasp.

Newer, younger directors and those who have served on boards of European companies are also providing momentum for change.

**A Lesson in Board-Shareholder Interactions**

By establishing independent communications, boards and their companies may succeed in quieting dissenting shareholders and staving off government intervention. But it may also win them the confidence of shareholders, enabling their companies to operate more in the interests of the long term. In addition, boards may put themselves in the position of being able to make a major contribution to risk mitigation.

Schering-Plough provides a good illustration of what could be gained. In 2003, CalPERS, the largest public pension fund in the U.S., was threatening to put Schering-Plough on its focus list, which meant identifying the company as troubled. Breaking with traditional corporate practices, Fred Hassan, Schering-Plough’s chairman and chief executive, along with the chair of the compensation committee and the company’s first chief governance officer, met with CalPERS to request time to let the new leadership execute its strategy to repair the company and establish a high-performance culture that could sustain long-term growth.

“Since then, we’ve enjoyed a very good relationship with CalPERS,” said Susan Wolf, the chief governance officer. As part of a new shareholder engagement program, Schering-Plough also met with a range of shareholders, discussing their views on a range of issues, says Wolf.

**This shift — from behind-the-scenes advisors to highly accountable public figures —**
“As a result, we have enjoyed very strong votes in favor of management’s proposals, very few withhold votes on directors and largely we’ve avoided the adversarial situations that many of our peer companies face,” says Wolf.

“If boards handle it right, they can win the long-term loyalty of their investors,” says Davis, of the Millstein Center at Yale. “If they establish solid relationships with long-term owners — typically investors with longer time horizons — boards have more freedom to plan for the long term.”

At least some shareholders see it the same way.

“We want to use our interaction with the board to understand the guidance the board is giving to management,” says Sheehan, “It demystifies the process, which enables us to better support long-term objectives of the company.”

More communicative boards may also be able to preserve control over their risk mitigation practices. While risk oversight remains a board’s responsibility, various shareholder rights bills seek to be more prescriptive about how a board handles risk, including the formation of a separate risk committee. Many boards resist such a one-size-fits-all approach. By better communicating how the board is handling risk oversight, boards may be able to stave off regulatory changes and let the board continue to decide what kind of risk program works best for the company.

Since boards play a critical role in setting the tone of the organization, the board’s greatest impact could be in creating a risk management culture, says Ira M. Millstein, senior partner at the law firm Weil, Gotshal & Manges. One study suggests that operational risk can only be fully addressed if it is communicated throughout the organization, with each employee understanding his impact on risk taking, his responsibility for acting within acceptable limits and his ultimate accountability. To achieve that, directors may need greater involvement with employees. They could accomplish this in part by attending the occasional town hall meeting and showing up at an investor conference. And they should do more than simply be introduced. Allowing the chairs of the key committees to make brief reports and answer questions for employees at large would go a long way toward opening channels of communication.

**Developing a Board Communications Plan**

For boards that decide that communicating independently is in the best interests of the companies and shareholders they serve, there is no single formula for them to follow. But, there are some common principles they should consider in designing a plan.

Most importantly, they should commit themselves to meaningful communication. Activist investors will react badly to weak attempts at dialogue, lip service or an avalanche of information calculated to placate stakeholders without truly communicating with them.

It is also important for boards to understand that communication is not a one-way street, according to Davis. True communication means listening respectfully and responding appropriately as well as informing and persuading, he says. The purpose of communication must be to genuinely weigh the perspectives of others in decision making.

Wolf attributed much of the success of the revamped communications strategy for Schering-Plough’s board to its commitment to regular rather than episodic communication during proxy season or when an investor raised an issue with investors. Shareholders knew when the company implemented one of their suggestions and received an explanation.

A former board secretary, Karen Kane consults to boards of directors and is based in Chicago.
By the time Edward D. Breen Jr. took over as CEO and chairman of Tyco International in July 2002, the company was in the midst of what threatened to become a death spiral. Its stock price had tanked, it was deep in debt, its once-stellar reputation was sullied by scandal, employee morale was in tatters and the company’s strategic momentum had stalled. The previous CEO and chairman, L. Dennis Kozlowski, had become the latest poster boy for executive excess, accused of raiding the company treasury to pad an increasingly lavish lifestyle — including a $2 million 40th birthday party in Sardinia for his wife and a $6,000 shower curtain for Tyco’s New York City apartment. Almost overnight, Kozlowski went from being touted on magazine covers as “the next Jack Welch” to being investigated for fraud.

Although Kozlowski was widely considered the prime culprit in Tyco’s reversal of fortune, the company’s passive and disengaged board of directors, which appeared...
Informed

By Lew McCreary
to function mainly as a rubber stamp, ran a close second. According to Breen, the Tyco board had let risk get out of control during the company’s years of explosive growth.

“We had $32 billion in debt, and $13 billion was owed in my first year,” said Breen. “We didn’t have the money, and we had an $8 stock price.”

Kozlowski had powered Tyco’s growth through a frenzy of acquisitions, earning himself the nickname “Deal-a-Day Dennis.” On his watch, Tyco bought almost 600 companies between 1997 and 2002, including nearly $20 billion worth of acquisitions in 2001 alone. According to Breen, the deal-making velocity left too little time to thoroughly evaluate and integrate all those new properties.

Over time, the profusion of acquisitions — some of poor or unknown quality — gave the company a bad case of indigestion that brought it to the brink of bankruptcy, said Breen. He became convinced that the board of directors that hired him to replace Kozlowski also needed replacing since it had failed to prevent, or even recognize, the perils that nearly destroyed Tyco. Central to the board’s dysfunction was its passivity. It failed to pursue information that might have awakened it to the risks the company faced and it failed to question the wisdom of management’s deal-making pace, said Breen.

“Just imagine if the board had spent two or three meetings talking about the balance sheet,” and playing the what-if game, said Breen. “What if the stock market takes a downturn? What if the financial markets tighten up? What if we can’t raise money for a little bit of time? Very basic questions that might have caused a smart board member to get really nervous.”

Breen’s search for new directors ushered in a range of reforms aimed at ensuring that no future Tyco board would allow a similar crisis to develop on its watch. In revising board practices, Breen and the new board tackled many of the key challenges commonly confronted by corporate directors.

Data Mining

The difficulty boards encounter in obtaining critical information has long been seen as a challenge to good corporate governance. Management invariably knows more about the company than do the directors, shareholders or regulators. So the mission of every board is, in part, to close the gap as much as possible. It is more a problem of quality than of quantity. Clearly, the board does not need to know everything management knows — just the really important things.

Boards usually have no shortage of information. Management customarily deluges boards with analysts’ reports, compliance filings and memos on strategy, risk and financial performance. And that deluge has been steadily growing in recent years. In fact, the volume of information with which boards need to concern themselves has gone from a trickle to a flood in the last 25 years.

In the mid-1980s, “if there was something of significance on the [meeting agenda], you might have 10 to 15 pages of reading and not much more,” said James I. Cash Jr., an emeritus professor of business administration at Harvard Business School who has served on the boards of public companies since 1984. Cash saw the volume of information boards received rise steadily throughout the 1990s — nudged along by globalization and the occasional lurid business debacle — and then spike sharply with the passage of the Sarbanes-Oxley Act in 2002. That legislation demanded numerous new disclosures that multiplied the information directors needed to review.

But the flood of information can serve as much to obfuscate and even misinform as to enlighten. Boards can be so overwhelmed with information that they are unable to zero in on what is critical. And management may sometimes be motivated to take advantage of voluminous information to divert directors’ attention from vital facts.

“Very often, they’ll bury them in data, but it’s not the right data,” said Nell Minow, co-founder of The Corporate Library (www.thecorporatelibrary.com), an independent corporate governance research firm.

The motivation to misinform can arise from the inherent conflict of interest that is at the core of the relationship between boards and management teams. Robert A.G. Monks and Minow described that essential conflict in their 1995 book, “Corporate Governance.” It is the board’s job to hire, and sometimes fire, top management; thus management reports to the board, which oversees its performance, the authors observed. And yet “in the overwhelming majority of cases, directors are beholden to management for nomination, compensation and information,” they wrote.

The job of boards then is to avoid being drowned in in-
Nell Minow, co-founder of The Corporate Library, an independent corporate governance research firm, believes that an ounce of prevention is worth a pound of cure in ensuring that management is forthcoming with information. She urged boards to take three precautionary steps when hiring a CEO.

Step 1: Define Integrity — Boards should make their expectations clear from the outset. Minow said a candidate should be told: "Look, you need to know upfront that job one around here is integrity. As Warren Buffett has been known to say, ‘If you lose money for us, we will be understanding; if you lose reputation for us, we will be ruthless.’ So you need to know right now that we expect no bad surprises. We don’t want to read in Barron’s about our financial problems. If there’s bad news, we want to be told about it immediately, candidly and completely by you. And if that ever does not happen, you’re out. The policy of this board is that if it’s a matter that would lead to the dismissal of a middle manager, it will lead to the dismissal of the CEO. So, if you’re lying on your resume, or if you’re using the corporate jet for family vacations and wandering by some meeting in Maui for 10 minutes so that you can call it a business expense, you’re out."

Step 2: Ensure Compliance — “The next thing you do is put your money where your mouth is,” Minow said. That means making sure that incentives and compensation are designed to reinforce a board’s expectations. “You have genuine clawbacks, and you have pay that is genuinely tied to performance,” she said. “And you don’t go back on that. Just because the economy is down, you don’t say, ‘Well, you tried really hard.’ None of that. You really have to communicate this as powerfully and continuously as possible — with your words and with your incentive compensation as well.”

Step 3: Assess Performance — This step requires that boards form close relationships with the CFO, the general counsel and the chief integrity officer, if there is one, so that directors have 360-degree views of the company’s and the CEO’s performance, said Minow. Boards should also form good relationships with the secondary level of management to get additional perspective.

Taking Control of Information

One of the principal ways that boards can regain control of the information they receive is by setting the agenda for board meetings.

“I can’t emphasize enough that the board itself needs to control the agenda for board meetings,” said Minow. “The board has to say to the CEO, assuming the CEO is chairman, ‘If you’ve got good news, send it to us in an e-mail. We’re happy to have it, and we’ll stand up and applaud. But the board meeting, when we’re all in the room together, is about the bad news. It’s about the toughest problems and the hardest questions. That’s why we’re here. So we start with that, and if there’s time left over, we get to the good news.’ And that’s why the board has to control the agenda. Because if they do, they will also control the information they receive.”

At Tyco International, the board now routinely proposes topics for discussion, said Breen. He also is careful to leave plenty of time in meetings for discussion; there are no long presentations or slide decks.

“If you ask for an open dialogue at the board meeting, hundreds of questions usually get at all the issues,” he said. “Versus a board that just sits there and lets management present, and maybe once an hour there’s a question.”

Another innovation at Tyco is the institution of regular teleconferences in the months between the board’s six formal meetings. There are a small number of agenda items for each of these calls, but the bulk of the time is left for open discussion. Breen finds that often questions raised by the teleconferences surface at the next formal meeting.

Field Work

Boards can also exert control over the information they acquire by conducting firsthand research themselves. Minow thinks field trips are a must.

The Home Depot, for example, has required its directors to make three store visits a month, said Minow. Home Depot’s directors “would hang out in the parking lot for a while and ask people coming out of the store if they’d gotten everything they needed” and whether the shopping experience was acceptable, Minow said. “Then they’d go inside and...
Board portals — secure online platforms where directors can gain access to information and communicate and collaborate with each other — are being widely adopted by corporate boards, said James I. Cash Jr., an emeritus professor of business administration at Harvard Business School. Cash has helped boards use technology to gather and share information and advised them on the governance issues associated with their use of technology.

Two portals available commercially are Directors Desk (www.directorsdesk.com) and BoardVantage (www.boardvantage.com). Both are what are known as hosted solutions, meaning the vendor provides the application as a fee-based service. Whether developed and deployed internally or hosted by a software provider, board portals make possible user authentication, remote access and information and communication encryption. They also have document management capabilities that apply even to files downloaded for off-line use. The information embedded in files is recognized in some states for auditing purposes, like verifying that materials were sent, received and read by a certain time. A company’s policies regarding the retention and purging of documents can also be applied to all files, annotations and communications.

Portals make it easier for directors to meet informally, outside of their usual meeting schedule. During the financial crisis in late 2008, boards held video conferences and teleconferences and took formal votes on an almost weekly basis, business that would have been very difficult to conduct without portals, Cash said.

look around. And then there’d be an announcement on the PA saying, ‘One of our board members is here today. If any employee or customer wants to talk to him, here’s where you’ll find him.’"

The Tyco board has become as intent upon doing its own research as its predecessor was complacent about it. The board has launched a range of risk-mitigation activities across the business, including trips to foreign facilities, said Dennis Carey, a senior client partner in Korn/Ferry International’s CEO and Board Services Practice. Carey believes that few boards take risk assessment seriously enough.

"Many boards still have not gotten to the point where I would feel comfortable saying that they have very effective risk-mitigation discussions at the board level," he said.

Risk-assessment visits to worldwide business units are now a staple of Tyco directors’ work, said Breen. Directors spend a large part of one day meeting with the presidents of local business units and their direct reports. Board members ask the local managers what they think are the two or three worst things that could happen to them at any moment. Directors also tour the facilities and meet with employees to answer their questions. Breen and other top executives deliberately do not attend.

“We let the board team go do it and have a freely flowing dialogue," he said.

Boards can also take what amount to virtual field trips. The growing number of social networks and online communities — many of which are largely populated by a particular company’s customers or employees — are full of diverse viewpoints on corporate performance. Increasingly, companies actively monitor what is said about them on Twitter, Facebook and the Web sites of specialized advocacy communities that coalesce around various consumer interests and sectors. Boards should just as actively seek out those perspectives.

Minow also recommends that boards visit Yahoo and The Motley Fool message boards, where they are apt to find valuable information from unhappy employees as well as investors. Boards can only get a comprehensive picture of a company by gleaning information from as wide a variety of sources as possible, she said.

Trust, but Verify

In addition to independently gathering intelligence, boards must cast a skeptical eye over the information they do receive from management.

“You can’t do better than to quote Ronald Reagan, ‘Trust, but verify,’” said Minow. While she believes it is important for boards to build good relationships with management, she sees the job of verification as a perennial board challenge. (See sidebar, page 65, “To Ensure Candor at the Top, Begin at the Beginning.”)

Minow recalled a conversation with a director of one of the largest companies that imploded in the financial crisis to illustrate the pitfalls of directors taking what they are told at face value. She said the director told her, “I used to ask the CEO to get back to me on some things, and he wouldn’t do it.
And I thought, oh well, he’s busy, I don’t want to bother him. But now I realize he was just hiding stuff."

"Directors have to be immensely alert to discontinuities and inconsistencies — to things that just don’t seem right," said Jay W. Lorsch, a professor of human relations at Harvard Business School. "If you smell smoke, you better go see if there’s a big fire."

But boards must tread a fine line in questioning management because maintaining a close relationship with management is crucial to the performance of a board’s responsibilities, according to Lorsch and other observers of corporate governance. The paramount goal of a board is to build a trusting relationship with the management team, these observers believe. That relationship is presumed to lubricate a candid, productive give and take, which in turn helps directors develop insight into management’s thinking and overall performance.

Boards "can’t start to look like watchdogs," said Lorsch. "Even the audit committee, if it gets too aggressive, can create tensions." So checking up on the management team "has got to be done carefully and with a fair degree of what I would call delicacy," he said. That can be a tall order, he admitted.

Even when there is not a deliberate effort to conceal information, there is the danger that management is not in control of its operations. Lorsch believes that management's failure to comprehend the risks that their companies were exposed to, rather than deliberate wrongdoing, caused many of the recent corporate crises. To protect against this, boards must be able to unravel what management cannot.

Building a board composed of experts in key disciplines — finance, risk, compensation and talent management — can therefore be critical. Likewise, directors with specific industry knowledge or track records of executive leadership in companies of comparable structure, scale and reach bring a significant advantage in their ability to understand what they see and hear from management. Carey, of Korn/Ferry International, said that most audit committees he has worked with have at least two financial experts.

"There’s a plethora now of CFOs and former CFOs on board audit committees — many, many more than were on boards before Sarbox," said Carey, referring to the Sarbanes-Oxley Act. This is preferable to having professors of accounting serve on boards because CFOs know better what can be done to shade data, and they know what questions to ask of a company’s CFO, he said.

Carey, who recruited Breen and then Tyco’s new board, said he looked for “a world-class independent director who was a high-octane, high-energy person but also someone of great integrity.” Carey found Jack Krol, the former CEO of E.I. du Pont de Nemours, and the two of them assembled the rest of the new board.

“Because Tyco had had an investor crisis of confidence, we wanted to find people who were highly respected by the investor community,” said Carey. “We recruited a couple of people who were in the mold of no-holds-barred, shareholder-activist-supported directors. I wouldn’t do that in every case, but in this case it made sense.” Carey also looked for strong executive experience and hired two CEOs, William S. Stavropoulos of Dow Chemical and Rajiv L. Gupta of Rohm and Haas.

“These are big, global, complex companies that would not compete against Tyco but faced some of the same issues that Tyco would have to deal with,” said Carey.

Courage Above All

While it is crucial for boards to independently collect information and have the expertise to understand financial statements and accounting rules, it is most important of all that they have “intellectual courage and curiosity,” said Minow.

In January 2001, Kozlowski presented the Tyco board with a new CEO employment contract stipulating “that a felony conviction would not be grounds for termination,” said Minow.

“And they signed it,” she said. “Now, don’t you think maybe that was a red flag, and someone should have raised his hand and asked, ‘Is there something you want to tell us?’ That’s not an issue of information — they had the information right in front of them.”

Lew McCreary is a Boston-based writer and editor. He is a former senior editor at the Harvard Business Review.
Putting Leadership on the Couch

“Reflections on Character and Leadership,” by Manfred Kets de Vries (Wiley, 2009)

Manfred Kets de Vries uses the principles of psychoanalysis to explore an often ignored aspect of leadership development: Who you are is how you lead.

If you have never read Manfred Kets de Vries, you should treat yourself. Judged by The Economist to be one of the world’s 50 leading management thinkers, Kets de Vries paints a far more authentic portrait of leadership and its underpinnings in his eclectic writings than can be found in the vast majority of the leadership category, dominated as it is by books with facile formulations.

Kets de Vries took an atypical route to the study of management and leadership. After early studies in chemical and mechanical engineering, he turned to economics, but was troubled by traditional economic theories, which assumed rational behavior in individuals. It seemed to him that the behavior of homo economicus had more to do with rationalization than rationality. Later, as he delved more and more deeply into the study of organizational behavior, he became convinced that too much attention was being paid to structures and systems and too little to the vagaries and idiosyncrasies of the human personality.

Then, at Harvard, he took a course — “Psychoanalytic Psychology: An Organizational Theory” — that unlocked the door to his life’s work. In the ensuing four decades, Kets de Vries’ research at institutions like McGill, Harvard and INSEAD has methodically probed the dynamics of individual leadership and organizational change by applying...
the principles of psychoanalysis to them. His resulting writings refreshingly address the inconvenient truths and dark sides of leadership and organizations that many authors eschew.

A recently published three-volume series titled “On the Couch with Manfred Kets de Vries” (Wiley, 2009) offers a wonderful introduction to the author’s work. Comprising essays originally written between 1976 and 2008 and updated and revised by the author, the trilogy explores the link between personality archetypes and leadership. The latter books in the series focus on how an individual’s personality type, whether he’s in a position of leadership or a member of a management team, determines his career development and the functioning and success of his organization. However, it is the first book, “Reflections on Character and Leadership,” that constitutes the best overview of Kets de Vries’ seminal thinking.

The tenor of the book is evident from such tantalizing chapter headings as “The Pathology of Leadership,” “The Despot’s Toolbox,” “The Organizational Fool” and “When the CEO Is a Neurotic Impostor.” Kets de Vries’ intention is not to turn executive coaches into psychoanalysts but rather to provide a fresh context for their efforts. The reader never feels as if he has wandered into the thickets of psychoanalytic nether regions or the deserts of management-speak. Kets de Vries plays the two disciplines off of each other, making them both relevant.

Make no mistake, this book is not a glorified PowerPoint presentation that can be skimmed during your average airport layover. It is pleasingly dense with facts and insight, but far, far from dry, drawing on a wealth of historical, psychoanalytic and literary examples ranging from Hitler, Freud and Alexander the Great to Gustav Mahler, Franz Kafka and Ingmar Bergman.

The overall conclusion one reaches from reading this book runs counter to the currently popular notion that everyone should be a leader. That conclusion is: Who you are is how you lead. Many traits of leadership, good and bad, are intrinsic to the individual and some of them are immutable. For that reason, many so-called leaders are toxic and many should not be leaders at all. That is not to say, however, that all leadership characteristics are immutable. Rather, the book suggests that efforts to create or transform leaders will probably not be successful in every case or even in the majority of cases and that true leaders do not emerge solely from completing workbook exercises and receiving 360-degree feedback.

Though stark, Kets de Vries’ message is ultimately encouraging. In the latter third of the book, he focuses on how leaders can be transformative by displaying personal charisma that fosters passion and conviction and by creating organizational structure that fosters creativity and ownership. These are familiar themes in leadership literature, but they take on freshness and weight when viewed from Kets de Vries’ clinical perspective.

To illustrate these forces of change, the author describes the impact of three leaders whom he considers designers of prototypical postindustrial corporations: Richard Branson, founder of Virgin, was a flamboyant and intuitive builder of a company that valued innovation and creativity above all else; Jack Welch, former CEO of General Electric, was an exacting, no-nonsense transformer of a once-sclerotic company into a lean conglomerate; and Percy Barnevik, former chairman and CEO of ABB, was a soft-spoken, analytic integrator of geographically dispersed businesses into a global organization.

The book’s final chapters address what Kets de Vries sees as the greatest leadership challenge of the 21st century — globalism. He says that a new kind of global leader will be needed and that the prototype of a culturally empathetic and adaptable leader will probably emerge from Europe because of its diversity, geographic concentration and growing sense of unity.

“The best leaders are those who know how to balance action with reflection by using self-insight as a restraining force when the sirens of power are calling,” writes Kets de Vries. They are those who “retain their sanity in what seem insane places,” he continues. It is precisely these capabilities that Kets de Vries believes can be identified and nurtured with a psychoanalytic approach to leadership development.
Organizational culture reveres and rewards rationality. A successful leader’s stock in trade is rigorous analysis of data and information, careful consideration of multiple options and clear-eyed strategic planning, leavened with a touch of the maverick’s intuition.

Well, that is a widely held view anyway.

The truth, however, is nearly the opposite, according to Sydney Finkelstein of the Tuck School of Business, and Jo Whitehead and Andrew Campbell, both of the Strategic Management Centre at Ashridge Business School. As they explain in their book, “Think Again” (Harvard Business Press, 2009), when seeking a solution amidst incomplete data and multiple uncertainties, the human mind’s initial gambits are predominantly unconscious, intuitive and emotional. In other words, in “Star Trek” terms, we are all more Captain Kirk than Mr. Spock.

How the Brain Makes Decisions

Evolution, say the authors, has given us the ability to quickly assess and react to the complex world around us. We continually, unconsciously, seek to recognize complex patterns — visual, structural and sequential — in our experience. We then file the patterns...
away so we can take action based on our past experience the next time we encounter situations that fit those patterns. The brain also associates each of these stored patterns with an emotion. This “emotional tagging,” as it has been called, operates as a fast-access filing system in our thought process, further guiding us to the kind of rapid response that rational analysis alone could not trigger.

Emotions are advantageous in that they often help us get to the right answer effortlessly and efficiently. However, because pattern recognition requires the brain to fill in blanks and guess when there is incomplete information, the brain can make connections between past and current situations that do not exist. The authors call these “misleading experiences.” And the strong emotional tags linked to past experiences can drive us to inaccurately size up current circumstances, what the authors call making “misleading prejudgments.”

Unfortunately, once a misread pattern or a misleading emotional tag has set a bad plan in motion, human nature is not likely to lead us to review or reverse our course. Research shows — and the authors’ field work reinforces — that, contrary to what we believe about ourselves, human beings do not normally do much conscious analysis, such as identifying and comparing options or challenging assumptions and initial assessments. In the interest of quick, decisive action, our brain has evolved to arrive at a plan and not actively search for disconfirming information. To the contrary, it seeks input that will confirm its original course and re-evaluates only if the plan proves flawed — and sometimes not even then.

Such misreadings occur all the time in the business world. In 1994, William D. Smithburg, as CEO of Quaker Oats, spearheaded the acquisition of Snapple Beverage, believing that its declining brand could be revived with the same marketing tactics that had worked with the Gatorade Company, which Quaker Oats had acquired under Smithburg’s leadership a decade earlier. Smithburg failed to recognize that, beyond superficial similarities, Snapple was not like Gatorade. It was an offbeat brand, driven by an entrepreneurial sensibility, grass-roots marketing and a cultlike affinity with its customers and distribution channels. In the end, the Snapple business lost $75 million in 1995, suffering a 5 percent decrease in sales.

More Red Flags

The authors identify two additional signs that a disastrous decision is likely to be made: inappropriate self-interest and inappropriate attachments. The notion that self-interest can work for the common good forms the basis of much of economic theory and regulates society at large. But self-interest and personal attachments to people, places or things are counterproductive when they do not align with the interests of the organization. Inappropriate self-interest — financial gain, ego, personal enmity, personal preference and even nostalgia — was found to be a factor in two thirds of the cases of failed decisions studied by the authors.

Designing Safeguards

Because red-flag states of mind for the most part reside in the unconscious, Finkelstein, Whitehead and Campbell conclude that relying on self-awareness or self-regulation are unreliable strategies for making sound decisions. Instead, they recommend that individuals and organizations counterbalance human biases with planned, systemic interventions that they call “safeguards.” These safeguards involve supporting decision makers by providing them more experience, data, analysis and formal venues for debate and challenge.

While these kinds of safeguards are likely to minimize the chances of disastrous decisions being made, it is debatable whether they will ultimately lead to better decisions. After all, any process designed to smooth out lows is also likely to dampen highs, kind of like organizational Valium. The authors concede that what they call “toxic levels” of safeguards can be paralyzing and have to be carefully administered. Ultimately, however, the question is whether we want our leaders to be stewards or avatars. If the latter, we may just have to ride the roller coaster, red flags and all. When you think about it, there was probably a good reason that Kirk, and not Spock, captained the Enterprise.
The arc of your executive development is defined by a series of crucial inflection points — transitions in role, responsibility, style or location that can, depending upon how well you handle them, either propel your career forward or derail it. Michael D. Watkins' new book, “Your Next Move” (Harvard Business Press, 2009), provides a lucid guide for navigating these transitions.

Watkins is a widely recognized authority on the subject of leadership transitions. In his earlier book “The First 90 Days” (Harvard Business School Press, 2003), which has become a classic of the genre, he identified several principles followed by all successful newly appointed executives and the organizations that hire them. In “Your Next Move,” he has expanded on that thinking and explored the common factors that underpin all successful transitions.

Drawing on his hands-on executive development work as chairman of Genesis Advisers as well as his academic research at IMD, INSEAD and the Harvard Business School, Watkins has concluded that most leaders experience some or all of the following eight key transitional challenges at some point in their professional lives:

- **Promotion.** Any upward move in a hierarchy requires subtle adjustments in focus, perspective and leadership style.
- **Leading Former Peers.** A frequent challenge accompanying promotion is establish-
Executive transitions are, in effect, the synapses of the organization’s neural network and they test the viability of its wiring.
Not long ago, I attended a breakfast in New York whose guest speaker was George Soros, the legendary hedge fund manager, philanthropist and social activist.

The point of the breakfast was for Soros to discuss how deep and how long the recession would be, and to explain how he had been navigating his way through it.

Not without humor, Soros started off by saying that he had predicted the Great Recession of 2007 to 2009 and that he had done so more than once. He also said that when he saw it coming, in 2006, he decided to come out of retirement to take the helm of his fund and to actively manage his investors’ money and his own. How did he do?

He finished the recession $4 billion or $5 billion ahead — he didn’t remember which — much of it for his own account. But what was really interesting about the breakfast was the way he explained his approach to investing and the reason he knew in advance that trouble was brewing.

Soros’s analysis of the global economy was not based on numbers, he said. In fact, he explained that he was never very good at math and that his inability to do figures nearly cost him his degree at the London School of Economics. Instead, his approach was philosophical and observational.

Soros said he began to worry about the economy when the assumptions that people were making about the way economics worked began to seem wrong to him. For example, Soros said, people began believing that housing prices would only go up, that the stock market was the best place to invest under all conditions, and that the markets always worked and corrected themselves — a fact people said was somehow proved by the collapse of the Soviet Union.

These assumptions seemed correct at that time, and people eagerly assumed they would be true forever.

The problem, according to Soros, was that as assumptions began to diverge from reality, people chose the assumptions over what was true. They began to issue mortgages with easier terms and little or no documentation requirements, as housing prices were topping out and credit scores were deteriorating.

Investors from around the world increased their holdings of exotic financial instruments, even as the risks of these products were increasing. People talked about the American export surge, failing to notice that it was based on a dollar that had lost half its value. Soros gave a number of examples in which perception, not reality, held sway.

Soros called this phenomenon reflexivity. This means when people’s assumptions diverge from real events, they act as if their assumptions, not reality, are correct. This insight has given Soros a personal net worth in excess of $13 billion.

But even more interesting than what Soros said about reflexivity was what was going on in the room as the master talked philosophy. People began filing out.

As soon as Soros stopped talking about financial flows and the relative value of the dollar, and began talking about how people perceive the world and act on their assumptions, faces went blank. They did so even though these were the very tools that Soros used to make his money.

All of the people invited to the breakfast had earned the right to be there, either because they managed lots of money or had invested a great deal of their own. And yet, it seemed from the group’s reaction that Soros’s philosophy was playing out in front of his eyes.

People heard Soros’s views, noticed that they didn’t match their own and dismissed them, even though they worked. They favored their perceptions, while dismissing those of a master.

There are many areas in business and in life where perceptions trump reality. They do so because of our need for familiarity, a reluctance to change, rigid thinking, and a host of reasons known only to Soros and a favored few.

But as we move into the new decade, we should be mindful that understanding the difference between perception and reality could give each of us a payoff, in our own realms, as big as the ones they have given Soros.

Accepting reality over what we believe to be true may be uncomfortable, judging from the looks on the faces of the people departing early from that New York breakfast. But with high levels of uncertainty and risk all around, it may be the tool we need to navigate our way ahead.

The decade just concluded has been a painful one. Let’s not waste the experiences of that era. We could all benefit from some of Soros’s determination to question transitory assumptions. Our job now is to watch and learn. It would be a shame to walk out of the room no wiser.