HBR'S 10 MUST READS

BONUS ARTICLE
"The Focused Leader"
The McKinsey Award Winner
By Daniel Goleman

The definitive management ideas of the year from **Harvard Business Review.**

2015

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The definitive management ideas of the year from
Harvard Business Review.

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Contents

Putting together an issue of *Harvard Business Review* is a balancing act. We want to include the best academic thinking—and best-practice insights from organizations. New ideas—and ways to apply old ideas to new challenges. Fresh thinking about problems in the global economy—and about the problems people face every day at work.

If we get this balance right issue after issue, larger themes emerge over the course of a full year. That was certainly the case here: As we selected this group of articles, their authors almost seemed to be talking to one another. Several lines of thought stand out: An increased focus on how we spend our professional time, given that it feels (and is) ever scarcer. All the ways we find to avoid making tough choices. The inequities of 21st-century capitalism and the threats they pose. How difficult it is to move managerial ideas across geographic—and organizational—boundaries. We'll be interested to learn what additional themes emerge for readers of this collection.

We lead off with **"Beware the Next Big Thing"** in part because it offers subtle advice on how to read and apply these articles. Big-bang ideas come with their own hype machine, but Julian Birkinshaw, who studies the evolution of management ideas, says that it's never a good idea to adopt a new idea or best practice wholesale. Companies are more successful when they figure out what principles underlie the idea they want to borrow and then, if this deeper analysis suggests that it's actually relevant, experiment with adapting it to their needs.

Tarun Khanna gets at something similar in his magisterial article **"Contextual Intelligence."** Suppose you have a well-oiled, successful operating model in one country or region. Thirty years of experience with globalization has taught us that the process of applying that model to another setting is profoundly difficult. Khanna traces the experience of the German wholesaler Metro Cash & Carry as it moved from Germany into Russia, China, and then India. Ultimately it succeeded in each of those markets—but in every case, becoming profitable took years longer than expected. The speed of technological change leads us to assume that institutional, social, and economic transformations take place much faster than they actually do.

Speaking of institutional change, we were haunted this year by two uncomfortable questions: Is the concentration of power and wealth at the top of the U.S. economy hurting not just the middle class but business itself—and potentially the whole economy? And is pressure to deliver short-term performance damaging businesses' capacity to foster long-term growth? **"The Capitalist's Dilemma,"** by Clayton M. Christensen and Derek van Bever, is one in a cluster of articles that ask those questions. Corporations are sitting on unprecedented amounts of cash, the authors point out. Why, then, aren't they investing more ambitiously in innovations that could jump-start economic growth? Christensen and van Bever argue that the metrics used by investors and executives rate investments that are focused on efficiency and incremental growth higher than those that are focused on market-creating innovations. To change our patterns of investment, we need to change the tools we use.

Roger L. Martin tackles our failure to invest ambitiously from a different perspective in **"The Big Lie of Strategic Planning."** We all know that in theory, strategy is about making choices—walking away from some opportunities and targeting others. But in practice, most companies are afraid to place big bets. They prefer to treat the annual budgeting process as their "strategic planning" moment and fail to move outside their comfort zone as a result. Signs that you're not taking strategy seriously: You have a detailed operational plan for the next one to three years. You are comfortable with the plan. The future does not terrify you. In most industries, companies can't afford that kind of complacency. Growth is an imperative, and it won't happen in the absence of ambitious, tough decisions.

Another theme that cropped up: Traditional ways of managing corporate functions are badly out-of-date. Patty McCord, formerly the chief talent officer of Netflix, wrote the irreverent **"How Netflix Reinvented HR"** with that in mind. (Actually, she and Netflix's founder, Reed Hastings, coauthored a slide deck on the topic that's been viewed millions of times on the web; we asked her to develop it into an article. That was a first for us.) Our favorite advice: Hire only people who are fully formed adults, and then treat them like adults.

Marketing, also in need of an organizational overhaul, used to muddle along successfully as a stand-alone department. Not anymore. The best marketing teams have become so intermingled with IT and analytics that they're often run by the same person, according to the authors of **"The Ultimate Marketing Machine."** But org charts are almost beside the point, because most work now gets done by fast-moving, short-lived project teams staffed by people not just from marketing but from finance, IT, and a host of other functions. (The description of how to manage project-based work is so powerful that we thought about focusing the entire article on that topic.)

Those two articles described managers who saw the need to revamp well-established managerial practices. At Google, however, most employees didn't see the point of management, period. Google's engineers, whose values permeate the company culture, tend to consider time spent supervising people as time stolen from real work. Top managers suspected they were wrong—and, Google style, they asked a group of analytics PhDs to test their hypothesis. As David A. Garvin tells the story in **"How Google Sold Its Engineers on Management,"** the analysts eventually proved that highly rated managers had lower turnover, greater productivity, happier employees, and better overall performance. The methodology was rigorous enough for the company to conclude overwhelmingly that management does matter (this was a relief to us) and that managers can take specific actions to become better at it.

HBR usually considers time management at the individual level, but this year we paid attention to organizational time. The Bain partners who wrote **"Your Scarcest Resource"** point out that the data available from Outlook and other online tools now make the amount of time we spend on various activities and tasks transparent. Among their scarier findings was that one company's weekly ExCom meeting, which eats up 7,000 direct hours a year, devours *300,000* hours when all the prep time and follow-up meetings that cascade down through other levels of the organization are included. If time is your scarcest organizational resource, you should think extremely carefully about how you spend it. (A wild guess: Less of it should be spent in meetings.)

W. Chan Kim and Renée Mauborgne looked at how categories of managers spend their time. In **"Blue Ocean Leadership"** they describe using value curves—traditionally a strategy-making tool—to study this organizational question. Here's how it worked: First the authors gathered information from frontline, middle, and senior managers' "customers"—the people who work with them—about how those managers actually spend their days. Then they gathered information about how those managers would ideally spend their time, and mapped the two data sets against each other, showing where each cohort should shift its focus. That the value-curve exercise proved so helpful in this unfamiliar setting made us wonder what other classic tools might be repurposed in this way.

Underlying both those articles is an uneasy sense that individual leaders need to do a better job of managing their own attention—and that it's increasingly difficult to do so. Daniel Goleman dives deep into emotional intelligence, neuroscience, and other disciplines in his exploration of **"The Focused Leader."** It turns out that "focus" is a gnarly concept: Different kinds of focus call on different cognitive and emotional skills, not to mention neural pathways. Goleman provides not just a fascinating tour of this terrain, but a host of practical tips for expanding awareness, developing self-restraint, and understanding your own limitations.

Time, managerial attention, and capital are all competing for the role of a company's "scarcest resource." Claudio Fernández-Aráoz introduces a fourth claimant, arguing that talent wins the contest hands down; we don't know many CEOs who would disagree. In **"21st-Century Talent Spotting"** he argues for a change in how we hire. Decades ago we hired first for strength, then for intelligence, and then for specific competencies. Indeed, intelligence and relevant experience still count for a lot, as do emotional smarts. But the best lens to look through now is *potential*. It's much harder to judge than earlier hiring criteria were (according to the author, most high-potential programs inside companies do a terrible job), but the payoff is enormous.

Some management challenges never go away (the mysterious art of managing talented people is chief among them). Others are solved for one generation and then crop up years later in response to new market conditions. Still others really do get settled—at least for one set of people in one place. Our hope is that the pieces in this volume—the big themes they raise, the big ideas they put forward, and the practical guidance they detail—will help business leaders solve today’s critical challenges in their own jobs and organizations.

—The Editors

Beware the Next Big Thing

by Julian Birkinshaw

WHERE DO NEW MANAGEMENT practices come from? A few emerge fully formed from the minds of academics and consultants, but the vast majority come from corporate executives experimenting with new ideas in their own organizations. A case in point is the online retailer Zappos, which is replacing its traditional hierarchy with a self-organizing "operating system" known as holacracy.

Zappos's experiment is getting a lot of attention. Like many management innovations before it, holacracy has an exciting zeitgeist appeal. At least a few executives in other firms are no doubt asking themselves, given today's pressure to innovate and the changing nature of the workforce, is this the management idea of the moment? Could it give my company a competitive edge? What are the risks of trying to import it?

For decades, executives have been asking similar questions whenever management innovations burst onto the scene. Sometimes a new idea is so transformative that it can and often does propel a company to unprecedented levels of performance. Six Sigma and lean manufacturing have had that effect, galvanizing managers to improve quality and cut costs.

But importing ideas is risky. Even the most obviously useful theory or practice can go wrong if a company is unprepared to act on the insights it offers. And the value of most management ideas—and where they might take you—is far from obvious. Is holacracy about empowering creativity or about tearing down authority? Can you envision "everyone" in your firm becoming a leader? Could your culture and organizational structure withstand such a dramatic change? The potential rewards of experimental concepts may be great for certain firms under certain circumstances, but for others, implementing them can be profoundly difficult or even destructive.

By taking deliberate steps to understand other companies' innovations and how they relate to your own firm's ways of thinking and functioning, you can better discern which experimental concepts are worth your while. With thoughtfulness and care, you can increase your chances of success when you do borrow ideas and, in the process, acquire new knowledge that will help improve your business in the long run.

It’s the Next Big Thing! (Or Is It?)

Any radical management innovation is quick to attract the attention of journalists, academics, and consultants. My studies, which I conducted with Stefano Turconi, a research associate at London Business School, reveal important benefits of that attention: Researchers and writers help companies codify or make sense of their ideas, and the visibility helps executives build support for their practices inside and outside the firm. The public discussion lets other companies know about the idea.

Publicity also has a downside: It raises the risk of hype, disappointment, and, sometimes, a repudiation of the idea. (See the sidebar “The Inevitable Hype Cycle” later in this article.) This magazine, for example, has debuted ideas that are now part of the management canon—and ideas that have been relegated to the dusty archive shelves. Your goal as a manager couldn’t be more different from those of the media and academia. You’re not trying to ride the next wave; you’re looking for the perfect wave. Popular opinion has less pertinence for you than an idea’s underlying concepts; indeed, it’s worth bearing in mind that foundational ideas often live on even after the practices associated with them have fallen from favor.

Idea in Brief

The Problem

Innovative management ideas that bubble up in other companies pose a perennial quandary: Should you attempt to borrow them, and if so, which ones and how? Even the most promising practices can fail if they’re transplanted in the wrong firm.

The Solution

The best approach is to extract the essential principle from a management innovation—its underlying logic—by asking a series of questions about it, including: How is your company different from the originating firm? Are the innovation’s goals worthwhile for your organization? Even if you decide the idea isn’t right for you, the analysis can help you better understand your own management models and sharpen your practices.

So how can managers effectively look beyond hype to make sense of the ever-changing landscape of management innovation? Broadly speaking, there are two ways to borrow from innovative companies: observe-and-apply, and extract the central idea. Each offers benefits, and each has its own challenges.

Observe-and-apply

This is the most obvious—and most commonly employed—approach for adopting new management ideas. It can and does work well, but only under limited sets of circumstances. One is when the observed practice easily stands alone or involves just a small constellation of supporting behaviors. GE's well-regarded succession-planning process is a good example—think of the smooth CEO transition from Jack Welch to Jeffrey Immelt in 2000. The process is supported by just a few specific actions, including creating transparency around the candidates and planning for the likely departures of those who don't get the job. These behaviors are relatively easy to copy; thus it's common to see GE-inspired succession systems running well in other companies—for example, Walmart, GlaxoSmithKline, and Tesco.

Observe-and-apply also can work effectively when a company's management model or way of thinking is very similar to the originator's. Two software firms using the Agile development approach, for instance, are most likely employing many of the same techniques and a common language, so if one of them were to put a new management model into place, the other would be likely to replicate it successfully with observe-and-apply. Similarly, companies that have unorthodox ways of doing things are much more likely to succeed in borrowing management innovations from other nontraditional firms: Radical ideas tend to take hold when they move with, rather than against, the tide.

For that reason, I give Zappos a good chance of succeeding as it implements holacracy, an idea that originated in a couple of Silicon Valley start-ups. Zappos has already shown a proclivity to go its own way; the company is known for such unorthodox practices as testing employees' loyalty by offering them cash to quit.

But all too often, the practices used successfully at one company prove disastrous at another. Consider GE's high-performance culture in the late 1990s. Employees generally recognized that the firm's strong focus on individual accountability was first and foremost a means for honing corporate competitiveness in the marketplace. That understanding formed the backdrop for Welch's policy of ranking all employees within a given unit, rewarding and promoting the high performers, and firing (or providing remedial training for) the bottom 10%. The "rank and yank" system was emulated widely—but it often failed, particularly in organizations that hadn't developed cultures of productive internal competition. Employees unaccustomed to the pressure frequently responded in dysfunctional ways. At Microsoft, for example, rank and yank ended up pitting employees against one another and diverting their attention from competing against other companies.

More recently, a number of firms in the UK and Europe have sought to emulate some of the British retailer John Lewis's well-publicized management practices: generous benefits packages, inclusion of employee input in the selection of top executives, and a rewards scheme giving frontline workers the same annual bonus (as a percentage of salary) as the company's chief executive. These practices have helped the retailer attain an industry-leading position in employee engagement and retention. But the ideas haven't been easy for shareholder-owned companies to adopt. For one thing, John Lewis's practices are all of a piece—they fit well with and reinforce one another. A strong focus on training and development, for example, supports the firm's highly selective hiring process and its emphasis on internal promotion. For another, they grew organically out of an employee-centric philosophy that goes back to the company's founding as a worker-owned partnership. Removed from that context, egalitarian policies often fail to win support from executives and shareholders.

Google's policy of allowing employees to spend 20% of their time on innovation is another favorite target of the observe-and-apply approach (even though the company has now placed limits on the program to prevent developers from going off in too many directions at once). The policy is appealingly simple, and managers in other organizations are understandably attracted by its promise of churning out breakthrough ideas. But when other firms adopt the practice, the results are typically underwhelming. Managerial attitude is one reason. Google's top executives (initially, at least) were enthusiastic champions of the concept; in many companies, such management support is harder to come by. Also, Google is blessed with hotshot developers eager to pursue their brilliant ideas; developers who are unfamiliar with open-ended experimentation often find that they don't know what to do with their innovation time. For these reasons, companies that emulate the policy typically terminate it before the 20% projects have been given a chance to succeed.

It hardly needs pointing out that failure can cause a great deal of damage. Adopting and then abandoning new practices can wear out an organization and reduce the likelihood that leaders will be able to bring about sustained improvement. That's why companies need to use the observe-and-apply method with care.

Extract the central idea

The hazards of importing a management innovation can be greatly minimized by extracting only the essential principles of a practice. Whatever differences may exist between the new organizational context and the original become less important, and fewer adjustments are required for the principles to take root.

UBS Wealth Management provides a good example. Following a successful merger in 2000, the financial services firm was seeking ways to grow. While brainstorming, the leadership team realized that one of the biggest obstacles to growth was the company's budgeting process—in particular, the time-consuming negotiations it required between headquarters and operating units. One executive suggested that the company could learn from the banking firm Svenska Handelsbanken, which had done away with budgeting a decade earlier. A group of senior managers visited the Swedish firm and saw that even though the companies' business models differed, it would be possible to borrow several of Handelsbanken's planning principles: less oversight from headquarters, greater frontline responsibility, and friendly competition among peer units. The team put together its own light-touch budgeting model, which was better suited to UBS's culture. For example, rather than adopt Handelsbanken's collective-bonus plan, which was based on groupwide performance, UBS linked bonuses to units' return-on-investment performance relative to that of peer groups.

Another example comes from GlaxoSmithKline. In the late 1990s, when the biotech revolution was threatening the pharmaceutical industry's R&D model, a few pharma firms, including Roche and Bristol-Myers Squibb, spent large sums buying biotech firms in order to gain access to their strong pipelines of innovative ideas. GSK tried something bolder: It studied the start-ups and determined that a key reason for their success was that they built cross-functional teams and focused them on specific therapeutic areas, a radical departure from pharma's traditions. GSK replicated the essence of that model internally, first creating semiautonomous Centres of Excellence for drug discovery and then breaking them down further into Discovery Performance Units, comprising 30 to 60 people, which were expected to seek funding for research projects from an internal investment board. While this model created some management challenges, it helped GSK retain its position as one of the world's top pharmaceutical companies and develop a drug pipeline that is among the industry's best.

The Inevitable Hype Cycle

YOU CAN OFTEN GAIN valuable insight from radical management innovations, even if they fizzle out. And they do fizzle out. Nine-tenths of the approximately 100 branded management ideas I've studied lost their popularity within a decade or so. These include GE's Work-Out, W.L. Gore's lattice structure, Xerox's communities of practice, Thermo Electron's Spinout model, and Google's 20% innovation time policy.

> Oticon's Spaghetti Organization is typical. In the early 1990s, soon after the Danish hearing-aid manufacturer began empowering employees to create their own development projects, the experiment was the subject of effusive praise. The company was inundated with queries from other businesses, and its executives hit the speaker circuit. But within a few years Oticon began to realize that its new-product portfolio lacked coherence and that too many resources were being wasted on projects that went nowhere.
>
> Oticon's executives began shifting back toward a traditional structure, with project reviews becoming more formal and employees moving between tasks less frequently. Consultants began to cite the practice as a negative example, and in 2003 an academic analysis labeled the experiment a "partial failure."
>
> Oticon's experience was more nuanced than the hype cycle suggests, however. Sales and profits increased during the early phases of the Spaghetti Organization, and when executives scaled back and used a modified form of the original practice, sales and profits continued to rise. Moreover, adopting the spaghetti structure served to shake things up—arguably an important step in the company's successful transformation, even though most of the practices introduced in the early 1990s have now disappeared.
>
> To prevent the hype cycle from distracting you, look at how a management practice is really being used. Is it fulfilling its intended purpose in the company that originated it? That will help you ignore the talk of "breakthroughs" and "failures" and see what is simply useful about an idea.

Extracting the principle does not always work, of course, for a couple of reasons. First, identifying the underlying principle isn't a trivial matter. We are all prisoners of our own experience and cognitive biases. It's also often difficult to see the forest for the trees. During the 1990s, for example, Ford tried everything it could think of—automation, training, quality circles—to match Toyota's high standards on cost and quality. But it didn't succeed in its effort, because it overlooked the essence of Toyota's system: a belief in employees' problem-solving skills.

A second, linked problem is that even when the underlying principle has been identified, it is often very difficult to put into use. When I was working with executives of a large investment bank to implement cross-functional collaboration, we easily identified the practice's enabling factors—common goals, transparent communication, and motivation to share knowledge—but implementation turned out to be impossible. The company's bonus culture, which focused on individual performance, was so deeply entrenched that it shaped everyone's behavior, and all attempts to encourage collaboration were doomed to fail.

Know Yourself Better

Regardless of the method you choose, corporate self-awareness is a powerful advantage. Not only can it help companies adopt the right innovations, but it can improve the planning and implementation of any major initiative. The organizational learning that results is an added benefit: An experiment, even if it's eventually deemed unsuccessful, serves as a stimulus for revisiting your existing management models in light of the imported ideas. That new knowledge can help your firm sharpen and improve its current practices.

Consider Roche, the Swiss pharma company. (Disclosure: I've done consulting work for Roche.) A team of its executives were intrigued by the practice, in use at other companies, of open innovation. They decided to experiment with InnoCentive, a web platform on which companies can present technical challenges to thousands of would-be solvers. The executives posted a thorny technical problem that the R&D team had been struggling with, and they got back imaginative and useful ideas. Encouraged, they tried a few more.

Four Kinds of Deviants

WHEN YOU'RE DECIDING whether to import a management innovation from another firm, it's crucial to consider the source. Most innovations originate in companies that might be called "deviants," in that they don't follow the crowd. But not all deviants are alike. Be careful which firms you borrow from.

- **Upstarts.** These are young, small, sometimes intentionally iconoclastic firms. Valve Corporation, a video game developer, expects employees to set their own hours, select their own projects, and migrate from team to team. In fact, employees are encouraged to move their desks to where the action is. Of course, it's easy to be unconventional when you're small. Don't expect an upstart's experiments to work in a larger, established company.
- **Related species.** These aren't business organizations, but they can provide useful insights. Alcoholics Anonymous, for instance, shows how an organization with a clear sense of purpose can function with no formal control systems. These organizations' management ideas are usually better admired from afar than implemented in a profit-making company, though their unusual principles can sometimes be a source of inspiration when handled with care.
- **Certified weird.** These are highly successful companies that, despite their large size, operate by their own rules. California-based tomato processor Morning Star has gotten along without managers for more than two decades. But virtually all such companies have governance models such as family ownership or trusts that

help them maintain their individuality—Morning Star is privately held, for example. Beware of adopting their ideas unless your company has mechanisms for shielding it from day-to-day shareholder pressure.

- **Dancing giants.** These are big, traditional companies that have experimented with unusual models. Haier, the Chinese manufacturer, has created a highly decentralized budgeting process that pushes accountability down to individual teams. Shell's GameChanger, an innovative R&D funding model, has successfully nurtured many new technologies. Dancing giants' practices can be great sources of ideas, because they've already withstood shareholder scrutiny.

But after 10 challenges, they found that the implementation of the results by Roche's scientists and engineers was inconsistent. Solutions to process-related problems tended to be readily implemented, but solutions to deeper scientific questions, for some reason, often were set aside and left unused. The experience helped the company see that there's no single best way to innovate; as a consequence, Roche moved toward establishing a portfolio of innovation approaches that could be matched with a range of challenges.

Or consider a software firm we studied that provides security services to clients in the financial, logistics, and public sectors. The founder had long been frustrated by the complexity and inflexibility of the project-planning methodologies commonly used in the software industry. Inspired by the auction-like models that recruitment consultancies use to find candidates, the founder came up with the idea of having employees bid to work on projects by touting their skills and interests.

The new model had benefits but also some flaws. Developers felt a loss of control: If they were passed over, they often didn't know why, and they had no way to further plead their cases. The firm decided to reduce the auction emphasis, shifting project-staffing decisions to a weekly meeting where everyone in the company was represented. Decisions took into account the needs not only of clients and project teams but also of individual developers. The company's new system still looks a lot like the traditional model used in many software companies, but it functions better, because of managers' new understanding of how to involve developers in the process.

Remember, when an experiment fails, resist the default response of shutting it down and pretending it never happened. Learning from failure is never glamorous or easy, but the lessons can be invaluable.

Moving Forward

Let’s now look at the practical steps you should take in evaluating and importing management innovations.