Good leadership is not a one-size-fits-all proposition.

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LEADERSHIP

COVER STORY

68 | A Leader’s Framework for Decision Making

David J. Snowden and Mary E. Boone

Many executives are surprised when previously successful leadership approaches fail in new situations, but different contexts call for different kinds of responses. Before addressing a situation, leaders need to recognize which context governs it—and tailor their actions accordingly.

Snowden and Boone have formed a new perspective on leadership and decision making that’s based on complexity science. The result is the Cynefin framework, which helps executives sort issues into five contexts:

Simple contexts are characterized by stability and cause-and-effect relationships that are clear to everyone. Often, the right answer is self-evident. In this realm of “known knowns,” leaders must first assess the facts of a situation—that is, “sense” it—then categorize and respond.

Complicated contexts may contain multiple right answers, and though there is a clear relationship between cause and effect, not everyone can see it. This is the realm of “known unknowns.” Here, leaders must sense, analyze, and respond.

In a complex context, right answers can’t be ferreted out at all; rather, instructive patterns emerge if the leader conducts experiments that can safely fail. This is the realm of “unknown unknowns,” where much of contemporary business operates. Leaders in this context need to probe first, then sense, and then respond.

In a chaotic context, searching for right answers is pointless. The relationships between cause and effect are impossible to determine because they shift constantly and no manageable patterns exist. This is the realm of unknowables (the events of September 11, 2001, fall into this category). In this domain, a leader must first act to establish order, sense where stability is present, and then work to transform the situation from chaos to complexity.

The fifth context, disorder, applies when it is unclear which of the other four contexts is predominant. The way out is to break the situation into its constituent parts and assign each to one of the other four realms. Leaders can then make decisions and intervene in contextually appropriate ways.

Reprint R0711C
IDEAS & TRENDS

Munchhausen at Work
Nathan Bennett

Someone suffering from Munchhausen by proxy, a psychological disorder, fabricates or induces illness in another to win attention and praise as a caregiver. A similar pathology in the workplace leads employees to create or exaggerate problems in order to get credit for solving them. Here are some questions to help managers recognize such behavior. Reprint F0711A

A Staged Solution to the Catch-22
Andrei Hagiu and Thomas Eisenmann

Companies looking to launch a two-sided platform—between, for example, credit card users and merchants, or search engine users and advertisers—must overcome the reluctance of one side to sign on until it’s confident the other side will be well populated. It’s a common business quandary, but Google and Charles Schwab both found a way around it. Reprint F0711B

The Best Advice I Ever Got
Fred Carl, Jr.

The founder and CEO of Viking Range recalls the eventful words of an early adviser: “You should run this from day one like it’s a public company. Treat it like it’s going to be big.” He did, and it was. Reprint F0711C

Break the Paper Jam in B2B Payments
Steve Berez and Arpan Sheth

Many companies still overlook the virtues of electronic invoice and payment systems: Some 70% of U.S. business-to-business transactions involve paper invoices and checks, and managing them costs about $116 billion a year. Electronic systems can help cut accounts payable overhead by more than 50%—but suppliers need to be converted quickly. Reprint F0711D

Strategic Insight in Three Circles
Joel E. Urby and James H. Davis

Executives can delineate their corporate strategy with three simple circles: one for what customers value, one for how customers perceive the company’s offerings, and one for how customers perceive competitors’ offerings. The overlap (or lack thereof) will provide valuable insights. Reprint F0711E

Improve Your Return on Returns
A “reverse logistics” value chain strategy—what you do with goods your customers send back—can strengthen your company’s competitiveness, according to the authors of a recent article in the Academy of Management Perspectives. Estée Lauder built a $250 million product line from returned cosmetics. Reprint F0711F

Conversation with Lynne Brindley
The CEO of the British Library explains how the United Kingdom’s exclusive repository for rare books, manuscripts, and scientific papers has loosened up the design of its Business & IP Centre to encourage entrepreneurship and innovation. Reprint F0711G

Lessons from the Leaders of Retail Loss Prevention
Adrian Beck and Colin Peacock

Arresting thieves and investing in technology, the main approaches to retail loss prevention, haven’t managed to diminish it over the past 15 years. A study of companies that have successfully reduced shrinkage uncovers nine practices behind their success, beginning with organizational and senior management commitment to making loss prevention a priority. Reprint F0711H

Reviews
Featuring The Three Signs of a Miserable Job, by Patrick Lencioni.

MARKETING

HBR CASE STUDY

Mad About Plaid
Julia Kirby

Castlebridge & Company, a maker of high-quality outerwear, is a century-old British institution. Its headquarters remain in London, but most of its manufacturing has moved offshore. With the last domestic factory slated to close, the firm’s executives struggle to preserve the “Britishness” of the brand. Four experts comment on this fictional case study.

For historian Niall Ferguson, the plant closure is a logical step. The British public has been down this road, as have foreign consumers of British products. The real risk to the brand, Ferguson asserts, is the potential loss of its high-class cachet—not its national identity.

Fashion reporter Dana Thomas argues that by broadening their markets beyond the superwealthy, luxury brands have made themselves vulnerable to economic fluctuations. Cutting costs by moving production offshore is inevitable, so Castlebridge should, with characteristic British candor, come clean about it. If the firm shines light on its native roots and its international production, it could establish a winning reputation as a truly modern, global brand.

Dov Seidman, CEO of LRN, takes issue with how Castlebridge has gone about the shift to offshore production. In a world where reputation matters more than ever, the firm can’t just outperform competitors. It must “outbehave” them, by keeping its promises and acting in a principled manner. Seidman advises the company to rediscover and recommit to the core values that have brought it this far.

Writer and consultant Gill Corkindale looks inside Castlebridge, focusing on the staff that will stay on as the company restructures. She recommends a trust-building people strategy, modeled by the CEO, that emphasizes forthright communication from management, as well as genuine solicitation of and response to the opinions of employees.

Reprint R0711A
Reprint Case only R0711X
Reprint Commentary only R0711Z
Recent neuroscientific research shows that the health of your brain isn’t, as experts once thought, just the product of childhood experiences and genetics; it reflects your adult choices and experiences as well. Professors Gilkey and Kilts of Emory University’s medical and business schools explain how you can strengthen your brain’s anatomy, neural networks, and cognitive abilities, and prevent functions such as memory from deteriorating as you age.

The brain’s alertness is the result of what the authors call cognitive fitness – a state of optimized ability to reason, remember, learn, plan, and adapt. Certain attitudes, lifestyle choices, and exercises enhance cognitive fitness. Mental workouts are the key. Brain-imaging studies indicate that acquiring expertise in areas as diverse as playing a cello, juggling, speaking a foreign language, and driving a taxicab expands your neural systems and makes them more communicative. In other words, you can alter the physical makeup of your brain by learning new skills.

The more cognitively fit you are, the better equipped you are to make decisions, solve problems, and deal with stress and change. Cognitive fitness will help you be more open to new ideas and alternative perspectives. It will give you the capacity to change your behavior and realize your goals. You can delay senescence for years and even enjoy a second career.

Drawing from the rapidly expanding body of neuroscience research as well as from well-established research in psychology and other mental health fields, the authors have identified four steps you can take to become cognitively fit: understand how experience makes the brain grow, work hard at play, search for patterns, and seek novelty and innovation. Together these steps capture some of the key opportunities for maintaining an engaged, creative brain.

Reprint R0711D
finds far too many companies have no
Crisis by Growing Inside-
IBM’s Sam Palmisano was a champion
In his analysis of 1,800 successions, Har-
vard Business School professor Bower
found that companies performed signifi-
cantly better when they appointed insid-
ers to the job of CEO. Other researchers,
including Jim Collins in Good to Great,
have come to similar conclusions work-
ing from different data sets. Yet Bower
finds far too many companies have no
succession plans; as a result, when the
time comes to name a new chief execu-
tive, more firms turn to outsiders.

Both insider and outsider CEOs have
strengths and weaknesses at the start. In-
siders know the company and its
people but are often blind to the need for
radical change. Outsiders see the need
for a new approach but can’t make the
necessary changes because they don’t
know the organization or industry sector
well enough. What companies must do,
then, is find a way to nurture what Bower
calls inside-outsiders – internal candi-
dates who have outside perspective.

Often such executives have spent
much of their time away from the
mainstream of the organization, and
away from headquarters, living with new
opportunities and threats. Before becom-
ing CEO, Procter & Gamble’s A.G. Lafley,
for instance, worked for years building
P&G’s Chinese cosmetics operation
rather than the core detergent business.
IBM’s Sam Palmisano was a champion
of software and open systems at a time
when Big Blue was essentially a closed-
system, hardware-oriented company.

Nascent inside-outsiders should enter
the CEO-training process by the time
they are 30 and be given the opportunity
to manage a whole business, so that they
become good insiders. But they also
need to be mentored with an eye toward
preserving their outsider perspective,
so they learn how to turn their new ideas
into great businesses and are protected
from old-timers who might be inclined
to teach them a lesson.

Reprint R0711E; HBR Article Collection
“So You Want to Be CEO” 2616

Lynda Gratton and Tamara J. Erickson
Executing complex initiatives like acquisi-
tions or an IT overhaul requires a breadth
of knowledge that can be provided only
by teams that are large, diverse, vir-
tual, and composed of highly educated
specialists. The irony is, those same char-
acteristics have an alarming tendency to
decrease collaboration on a team. What’s
a company to do?

Gratton, a London Business School
professor, and Erickson, president of
the Concours Institute, studied 55 large
teams and identified those with strong
collaboration despite their complex-
ity. Examining the team dynamics and
environment at firms ranging from Royal
Bank of Scotland to Nokia to Marriott, the
authors isolated eight success factors:
(1) “Signature” relationship practices that
build bonds among the staff, in memo-
rable ways that are particularly suited to
a company’s business. (2) Role models
of collaboration among executives, which
help cooperation trickle down to the staff.
(3) The establishment of a “gift culture,” in
which managers support employees by
mentoring them daily, instead of a trans-
actional “tit-for-tat culture.” (4) Training in
relationship skills, such as communication
and conflict resolution. (5) A sense of com-
(6) Ambidex-
trous leadership, or leaders who are both
ready-oriented and relationship-oriented.
(7) Good use of heritage relationships,
by populating teams with members who
know and trust one another. (8) Role
clarity and task ambiguity, achieved by
defining individual roles sharply but giving
tams latitude on approach.

As teams have grown from a standard
of 20 members to comprise 100 or more,
team practices that once worked well
no longer apply. The new complexity of
teams requires companies to increase
their capacity for collaboration, by making
long-term investments that build relation-
ships and trust, and smart near-term
decisions about how teams are formed
and run.

Reprint R0711F
A price-benefit positioning map helps you see, through your customers’ eyes, how your product compares with all its competitors in a market. You can draw such a map quickly and objectively, without having to resort to costly, time-consuming consumer surveys or subjective estimates of the excellence of your product and the shortcomings of all the others.

Creating a positioning map involves three steps: First, define your market to include everything your customers might consider to be your product’s competitors or substitutes. Second, track the price your customers actually pay (wholesale or retail? bundled or unbundled?) and identify what your customers see as your offering’s primary benefit. This is done through regression analysis, determining which of the product’s attributes (as described objectively by rating services, government agencies, R&D departments, and the like) explains most of the variance in its price. Third, draw the map by plotting on a graph the position of every product in the market you’ve selected according to its price and its level of primary benefit, and draw a line that runs through the middle of the points.

What you get is a picture of the competitive landscape of your market, where all the products above the line command a price premium owing to some secondary benefit customers value, and all those below the line are positioned to earn market share through lower prices and reduced secondary benefits.

Using examples as varied as Harley-Davidson motorcycles, Motorola cell phones, and the New York restaurant market, Tuck professor D’Aveni demonstrates some of the many ways the maps can be used: to locate unoccupied or less-crowded spaces in highly competitive markets, for instance, or to identify opportunities created through changes in the relationship between the primary benefit and prices. The maps even allow companies to anticipate—and counter—rivals’ strategies.

Reprint R0711G

Corporate alliances are growing in number—by about 25% a year—and account for up to a third of revenues and value at many companies. Yet some 60% to 70% of them fail. What is going wrong?

Because alliances involve interdependence between companies that may be competitors and may also have vastly different operating styles and cultures, they demand more care and handling than other business arrangements, say Hughes and Weiss, management consultants at Vantage Partners. The authors have developed five principles—based on their two decades of work with alliances—to complement the conventional advice on alliance management:

1. Focus less on defining the business plan and more on how and your partner will work together.
2. Develop metrics pegged not only to alliance goals but also to performance in working toward them.
3. Instead of trying to eliminate differences, leverage them to create value.
4. Go beyond formal systems and structures to enable and encourage collaborative behavior.
5. Be as diligent in managing your internal stakeholders as you are in managing the relationship with your partner.

Companies that have adopted these principles have radically improved their alliance success rate. Schering-Plough, for example, engages in a systematic "alliance relationship launch"—four to six weeks of meetings at which the partners explore potential challenges, examine key differences and develop shared protocols for managing them, and establish mechanisms for day-to-day decision making. Blue Cross and Blue Shield of Florida measures the quality of alliance progress through regular surveys of both its own staff and its partners.

These companies have learned that the conventional advice is not so much wrong as incomplete. The five simple rules can help fill in the blanks.

Reprint R0711H

Communication may not be on managers’ minds at companies that design complex, highly engineered products, but it should be. When mistakes take place, it’s often because product-component teams fail to talk. The consequences can be huge: Ford and Bridgestone Firestone lost billions by not coordinating the design of the Explorer with the design of its tires. The major delays and cost overruns involved in the development of Airbus’s A380 “superjumbo” — which most likely led to the CEO’s exit — were a result of unforeseen design incompatibilities.

To help managers mitigate such problems, the authors present a new application of the design structure matrix, a project management tool that maps the flow of information and its impact on product development. Drawing on research into how Pratt & Whitney handled the development of the PW4098 jet engine, they have developed an approach that uncovers (a) areas where communication should be occurring but is not (unattended interfaces, usually bad) and (b) areas where communication is occurring but has not been planned for (unidentified interfaces, usually good).

After finding the unattended and unidentified interfaces, the next step is to figure out the causes of the critical ones. If a significant number of unattended interfaces cross organizational boundaries, executives may need to redraw organizational lines. Executives can then manage the remaining critical interfaces by extending the responsibilities of existing integration teams (those responsible for cross-system aspects, such as a jet engine’s fuel economy) to include supervising the interaction, by dedicating teams to specific interfaces, or by formally charging teams already involved with the interfaces to oversee them. Finally, it’s important to ensure that the teams are working with compatible design equipment; inconsistencies between CAD tools have cost Airbus dearly.

Reprint R0711J