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2010 Best Business Books

BY DAVID WARSH, WALTER KIECHEL III, KRISZTINA "Z" HOLLY, SHERIDAN PRASSO, SALLY HELGESEN, JUDITH E. GLASER, DAVID K. HURST, AND JAMES O'TOOLE

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2010 BEST BUSINESS BOOKS

TWO YEARS AFTER THE FINANCIAL COLLAPSE, THE IDEA of hunkering down and waiting for a return to business as usual — as people did in previous recessions — seems a less and less viable strategy. But what should you do instead?

In this edition of our annual review of the year's best business books, you will find a reading list that offers intriguing and compelling answers to this question. The list, assembled by a distinguished team of experts, starts with a select guide to the year's tallest stack: titles that parse the recession of 2007–09 for lessons in preventing another collapse. The reviewer is David Warsh, who covered economics for the *Boston Globe* for more than two decades and won financial journalism's Gerald Loeb Award twice.

Next up is Walter Kiechel III's essay on the best business books on leadership — in a year when the spotlight revealed an unflattering view of too many of our leaders. Kiechel, whose career included stints as the managing editor of *Fortune* and the editorial director of Harvard Business Publishing, reviews a handful of books that confront "traditional notions of leadership with new circumstances," including the rise of social networking. (We didn't cover the topic of strategy this year, but Kiechel's engaging book *The Lords of Strategy: The Secret Intellectual History of the New Corporate World* [Harvard Business Press, 2010] is featured in "The Right to Win," by Cesare Mainardi with Art Kleiner, *s+b*, Winter 2010.)

The ramifications of technologically enabled societies play a starring role this year in University of Southern California Stevens Institute executive director Krisztina "Z" Holly's review of the best books on innovation, and a supporting role in journalist Sheridan Prasso's choices for the best books about China, now the world's second-largest economy. Both are especially timely as organic growth becomes a top priority at many companies.

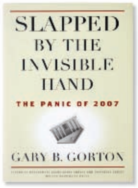
In the doing-more-with-less theme, *strategy+business* contributing editor Sally Helgesen returns with a selection of titles that call into question the "star" system of talent (a factor in the recent recession) and argue for a far more inclusive definition of human capital. In a complement to Helgesen's essay, neuroscience author Judith E. Glaser examines the year's best books on the human mind, which offer executives the means to improve their decision making and galvanize their workforce.

David K. Hurst, our longtime Books in Brief reviewer, finds that the Great Recession has not only emphasized the shortcomings of the managerial status quo, but also yielded a number of books that offer alternatives in its art and practice. Finally, University of Denver Daniels College of Business professor James O'Toole returns with his ninth consecutive annual best business books essay, which plumbs biographies and histories on subjects as diverse as Henry Luce and Chinese tea for business lessons that are as relevant as today's headlines.

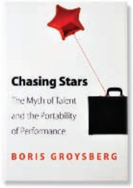
In a time of halting recovery, frugal consumers, tight money, and increasing government activism, companies urgently need winning strategies. For executives charged with creating and executing those strategies, this year's best business books are a valuable source of insight and inspiration.

— *Theodore Kinni*

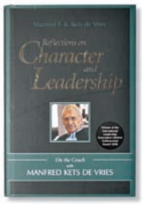
s+b's TOP SHELF



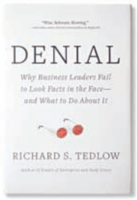
THE ECONOMY
Gary B. Gorton,
Slapped by the Invisible Hand: The Panic of 2007
(Oxford University Press, 2010)



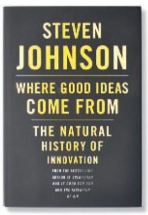
HUMAN CAPITAL
Boris Groysberg,
Chasing Stars: The Myth of Talent and the Portability of Performance
(Princeton University Press, 2010)



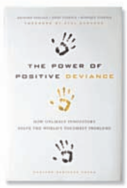
LEADERSHIP
Manfred F.R. Kets de Vries,
Reflections on Leadership and Career Development: On the Couch with Manfred Kets de Vries
(Jossey-Bass, 2010)



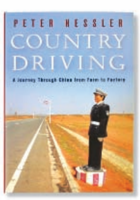
THE HUMAN MIND
Richard S. Tedlow,
Denial: Why Business Leaders Fail to Look Facts in the Face — and What to Do about It
(Portfolio, 2010)



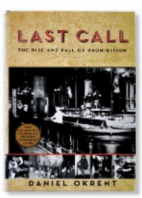
INNOVATION
Steven Johnson,
Where Good Ideas Come From: The Natural History of Innovation
(Riverhead, 2010)



MANAGEMENT
Richard T. Pascale, Jerry Sternin, and Monique Sternin,
The Power of Positive Deviance: How Unlikely Innovators Solve the World's Toughest Problems (Harvard Business Press, 2010)



CHINA
Peter Hessler,
Country Driving: A Journey through China from Farm to Factory
(Harper, 2010)



BIOGRAPHY AND HISTORY
Daniel Okrent,
Last Call: The Rise and Fall of Prohibition
(Scribner, 2010)

Illustrations by Daniel Pelavin

Gary B. Gorton, **Slapped by the Invisible Hand: The Panic of 2007** (Oxford University Press, 2010)

Henry M. Paulson Jr., **On the Brink: Inside the Race to Stop the Collapse of the Global Financial System** (Business Plus, 2010)

Gregory Zuckerman, **The Greatest Trade Ever: The Behind-the-Scenes Story of How John Paulson Defied Wall Street and Made Financial History** (Broadway Books, 2009)

Sebastian Mallaby, **More Money than God: Hedge Funds and the Making of a New Elite** (Penguin Press, 2010)

Raghuram G. Rajan, **Fault Lines: How Hidden Fractures Still Threaten the World Economy** (Princeton University Press, 2010)

Simon Johnson and James Kwak, **13 Bankers: The Wall Street Takeover and the Next Financial Meltdown** (Pantheon Books, 2010)

THE ECONOMY

THE Fog OF Panic

by David Warsh

The great uncertainty of all data in war is a peculiar difficulty, because all action must, to a certain extent, be planned in a mere twilight, which in addition not infrequently — like the effect of a fog or moonshine — gives to things exaggerated dimensions and unnatural appearance.

— *Carl von Clausewitz*

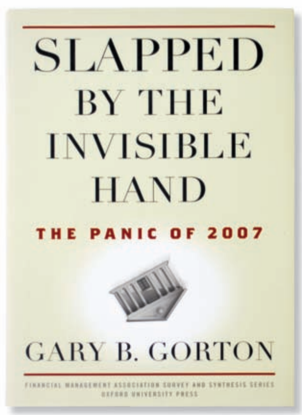
Something happened to us during these last three years, a momentous event, perhaps even a turning point in the history of global capitalism. But *what,* exactly? Everyone remembers the apex of the crisis, when Lehman Brothers perished, Bank of America bought Merrill Lynch, the Fed bailed out American International Group, and the U.S. Treasury Department took control of the U.S. government–sponsored loan companies Fannie Mae and Freddie Mac. In the time that has elapsed since a brief but heart-stopping paralysis behind the scenes in August 2007 set the stage for the later public event, a certain amount of sorting out has occurred.

An avalanche of good writing, much of it published this year, has been devoted to trying to decipher the chain reaction that took place between August 2007 and September 2008. These accounts may be divided into a few broad categories. There are narratives of the crisis itself, the analyses and prescriptions of economists, origin stories focused on various participants in the drama (the shorts, the quants, the hedge funds), and, of course, any number of corporate obituaries.

None of these books fully answer the question of what to expect as a long-term result of the crisis, but several of them, and one in particular, seem to go to the heart of the puzzle of what exactly happened to get it started.

The Narrative Framed

In the best business book of the year on the economy, *Slapped by the Invisible Hand: The Panic of 2007,* Gary B. Gorton of Yale University's School of Management explains in some detail how in August 2007, the financial markets found themselves in the grip of a phenomenon thought to have been rendered impossible by various safeguards: a banking panic of the sort that rocked global capitalism a dozen times between 1837 and 1907. This time, however, the spectacle did not consist of individual depositors lined up outside the locked doors of retail banks, but rather firms creating runs on other firms. Instead of some familiar physical address, this occurred at the intersection of the securitization business and the shadow banking system, two enormous industries that had barely existed 25 years earlier.



The story of how a long "quiet period" in American banking — roughly 75 years without a single panic — gave way to a seismic near-collapse after years of tumultuous behind-the-scenes change makes for fascinating reading. The implications for how the authorities might have acted differently is even more interesting. After all, if the meltdown was mainly an old-fashioned banking panic at a higher level of abstraction, it should have been easier to fix.

The great virtue of *Slapped by the Invisible Hand* is that it was written in real time, as the crisis unfolded. The book consists primarily of two essays that Gorton wrote for a pair of Federal Reserve conferences. The first was at Jackson Hole, Wyo., in August 2008, on the eve of the public crisis; the second was a session nine months later, on Jekyll Island, Ga. (where plans for the Federal Reserve System had been drawn up a hundred years before). It also includes a third paper, written 15 years earlier when the shadow banking system was just emerging, which provides historical perspective, and a coda, titled "A Note to Those Reading This in 2107," which makes it clear why the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 probably will not on its own be enough to stop the next panic.

What happened, according to Gorton, was a classic panic, not all that different from the *E. coli* spinach recall in 2006 or the fear of mad cow disease that shut down British butcher shops a few years back — except that in this case, it was the pervasive fear of "toxic assets" that shut down the world economy for a time. Other observers are now reaching the same conclusion, in economics textbooks and journals, and, in all likelihood — since Gorton was among the first witnesses called to testify — in the December 2010 report of the Financial Crisis Inquiry Commission, chaired by former California state treasurer Phil Angelides. In other words, a consensus is emerging. But with Gorton's book, you are there as the fog first begins to lift. You see how and when the narrative was framed. Moreover, *Slapped by the Invisible Hand* is tightly focused on prevention. You get a sense of how it could have turned out differently, if only the proper diagnosis had been widely shared among regulators at the time.

Why the star turn here? Gorton is not an ordinary economist. He has a master's degree in Chinese literature, and earned an economics Ph.D. at the University of Rochester in 1983 with a dissertation on banking panics in the 19th century, which was highly unfashionable for the academic tastes of the times. After several years at the Federal Reserve Bank of Philadelphia, he moved to the Wharton School of the University of Pennsylvania and, eventually, to Yale. His most salient experience, however, was as a consultant to AIG Financial Products, where for more than a decade (beginning in 1996), he modeled markets for exotic financial products for the giant insurance conglomerate. Having knowledge of both policy history and current practice provided him with a privileged position from which to observe the events of 2007 and 2008.

At Jackson Hole, Gorton reminded his listeners of history that had been forgotten — that half a dozen panics had occurred in the era of national banking, which spanned the 50 years from 1863 (when Congress authorized national bank charters and established a uniform currency) to the creation of the Federal Reserve in

1913. They usually happened near business-cycle peaks, when people worried about losing their savings in a bank failure. Some unexpected piece of news would send depositors rushing to demand their money and, sure enough, since most of the money had been loaned out, the bank would fail, even if it was competently managed. (This is the situation everyone knows from Frank Capra's film *It's a Wonderful Life.*) Privately owned clearinghouses evolved to squelch rumors about member banks when they arose — sometimes squelching them successfully, sometimes not.

The Federal Reserve Board was created to deal with panics by imitating the Bank of England as "lender of last resort" to threatened banks. (J.P. Morgan had demonstrated the efficacy of this approach by single-handedly stanching the Panic of 1907.) But then the Fed itself panicked after the stock market crash in 1929 and permitted hundreds of banks to fail. So Congress created a number of safeguards of its own: insuring deposits, carefully defining banking, and restricting entry into the business. Depositors were reassured that they didn't have to worry. And for the next seven decades, banking panics simply disappeared in the United States.

In the 1970s, however, two far-reaching changes in the system began to take hold, both of them described with considerable economy in *Slapped by the Invisible Hand.* Financial deregulation commenced when Wall Street ended fixed commissions on May Day 1975. The old partitions began crumbling. Money market mutual funds began accepting deposits. Junk bond underwriters entered the highly profitable lending business that had previously belonged mainly to the banks. Banks responded with innovations of their own, securitization chief among them. For centuries, banks held the mortgage loans they made to maturity. Now they learned to assemble mortgages into large pools, to slice and package the anticipated payment streams into "tranches" according to the seniority of the claim, and to sell the strange new securities that resulted to fast-growing institutional investors looking for a safe, steady return. This was the "originate to distribute" system.

Deregulation, securitization, and financial innovation became the foundation for the shadow banking system — though today it is probably better to call it the financial intermediation industry, since it is banking grown far out of its boots. Its lifeblood had become "repos" (sale and repurchase agreements), meaning the cash on hand of pension funds, investment houses, insurance companies, money market mutual funds, banks, corporations, governments, and every other kind of organization under the sun. Repos were the institutional equivalent of demand deposits.

But there could be no government insurance for sums like these. Collateral was required to make this short-term borrowing work. Along with a promise to return the principal on demand, repo lenders received a claim on bonds, often in the form of asset-backed securities, sometimes held by a third party. Thus did giant financial-services firms learn to finance themselves in the age of Fannie Mae, subprime borrowing, and Walmart. Gorton compares the money grid to the electricity grid. Everyone takes it for granted — writing checks, investing in AAA securitized products, etc. — until something goes wrong. Then, he says, the inner workings of the financial system turn out to be very complicated, just like the network that supplies electricity.

Gorton compares the money grid to the electricity grid. Everyone takes it for granted until something goes wrong.

The shock that triggered the panic came in the summer of 2007, a few months after a new market for credit default swaps — the ABX index — was introduced, permitting arbitrageurs to take sides for the first time on the future of the subprime mortgage market. For seven days in August, quantitative funds, especially those in the high-flying subprime market, found themselves in a vertiginous twist. The Fed staved off the panic with a half-point cut in its discount rate.

By then, however, the smart money had been put on notice: Something had gone badly wrong with mortgage lending. For the next 13 months, the authorities in Washington tiptoed around the problem while banks sought to raise capital and confidence waned. What might have prevented the meltdown from occurring? A frank recognition of the problem and a guaranteed floor on the value of subprime mortgages in late 2007 or early

2008 might have done it, says Gorton.

Even at Jackson Hole, crucial aspects of the situation remained unclear to central bankers and their economic advisors. Only after an exchange between Gorton and another participant, Bengt Holmström of the Massachusetts Institute of Technology, did economists begin to zero in on the significance of all the tranches of asset-backed securities. Debt value is supposed to be immune to most information about it, just as US$100 bills are supposed to be difficult to counterfeit. In normal times, the complexity of collateral didn't matter. When it became clear that greater scrutiny was required, transactions slowed down. In the case of repos, they stopped altogether for a time.

Slapped by the Invisible Hand is not an easy book, but that's mainly because much of the material is unfamiliar, and some of it is abstruse. It contains enough tables and diagrams to help readers follow the argument where it leads (to some equations, naturally), along with a timeline to help readers reconstruct what they knew in the past three years and when they understood its significance. It's possible to skip the hard parts and still master the frame. If you do, this is the book that, some years from now, you will be most glad to have read.

A Pair of Paulsons

Gary Gorton's book has become the framework through which I view almost every other book I have read about the crisis, especially those that fill in parts of the crisis map that might otherwise be labeled "Here There Be Tygers." The first of these, *On the Brink: Inside the Race to Stop the Collapse of the Global Financial System,* is from former U.S. secretary of the Treasury Henry M. Paulson Jr.

Paulson is a lovely person: an Eagle Scout, college football star, and devoted family man who made his way via mergers and acquisitions to the top job at Goldman Sachs. But he will probably become the crisis fall guy. Whereas Ben Bernanke had studied all his life for his task as central banker, a reluctant Paulson was thrust into the job and at first had little grasp of the situation he faced. He favored measures that might have been good for a firm — mark-to-market accounting in particular — but that were not suitable to a fire sale. And he focused on the wrong problem: Fannie Mae and Freddie Mac. When he ousted their managers, he thought he had saved the world. Lehman began to collapse the next day.

What, then, makes *On the Brink* so worth reading?

In a word, candor. Paulson conveys the experience of the fog of war, one surprise after another, as his team pieces things together and the impending collapse is finally, expensively, halted. The Treasury's "Break the Glass" bank recapitalization plan gradually evolves behind the scenes into the Troubled Asset Relief Program (TARP) as the situation deteriorates. "What we did not realize then, and later understood all too well, was how changes in the way mortgages were made and sold, combined with a reshaped financial system, had vastly amplified the potential damage to banks and nonbank financial companies," writes Paulson. That about sums it up. The Bush administration may have been a little late to the party, but, thanks to Bernanke and Paulson, it finally arrived.

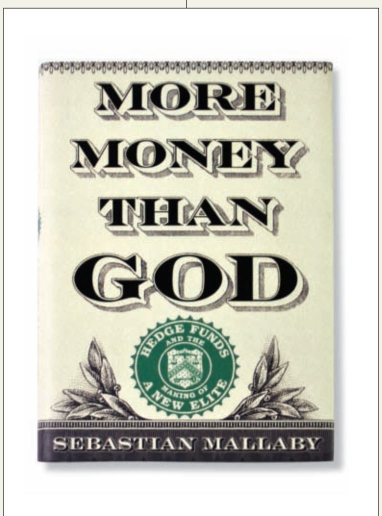
The Paulson from the economic events of 2007–09 who will be remembered longest, however, will probably be John rather than Henry. John Paulson is the hedge fund proprietor who learned how to use credit default swaps to short the subprime market with almost none of the downside risk associated with traditional short selling, and who then made exactly the right series of bets. In *The Greatest Trade Ever: The Behind-the-Scenes Story of How John Paulson Defied Wall Street and Made Financial History, Wall Street Journal* reporter Gregory Zuckerman, with exemplary clarity, explains how John Paulson groped until he understood the developing situation better than anyone else and, by trading the ABX index in the summer of 2007, made $16 billion for his investors and $4 billion for himself.

The Greatest Trade has been overshadowed in bookshops by *The Big Short: Inside the Doomsday Machine* (W.W. Norton, 2010), in which Michael Lewis, the best-selling author of *Liar's Poker: Rising through the Wreckage on Wall Street* (W.W. Norton, 1989) and *Moneyball: The Art of Winning an Unfair Game* (W.W. Norton, 2003), covers much of the same subprime territory — but without Paulson, who was telling his story to reporter Zuckerman. Lewis is, I suppose, the more gifted storyteller, and he mobilizes a colorful cast of characters. But the subprime scandal without Paulson is *Hamlet* without the prince. *The Greatest Trade Ever* is the perfect companion to *Slapped by the Invisible Hand,* which, it should be noted, is so antiseptic in its determination to stick to banking and economic issues that it contains not so much as an anecdote. Zuckerman, on the other hand, turns the bubble and its highly profitable pricking into an adventure story.

Risky Business

You get a glimpse of what the secretive hedge fund business is about from John Paulson's story, but if you want to know more about how the industry mushroomed in the 1990s, the book to read is *More Money than God: Hedge Funds and the Making of a New Elite.* Author Sebastian Mallaby was for many years a correspondent for the *Economist.* He had plenty of access to many of the ordinarily reclusive money managers who populate this relatively new niche in the asset management business.

George Soros was the hedge funds' only well-known name in 1990, when they managed $39 billion in assets. But by the peak in early 2008, the figure was $1.93 trillion, thanks to such pioneers as Michael Steinhardt, Helmut Weymar, Julian Robertson, Paul Tudor Jones, Bruce Kovner, Stanley Druckenmiller, Thomas Steyer, James Simons, and David Shaw, all of whom populate the book. (In contrast, the four biggest banks in the U.S. had $7.7 trillion in loans and other assets earlier this year, more than twice as much as the next 46 banks put together.)



Hedge funds avoid regulation by accepting investments only from institutions and wealthy individuals, and by not advertising. Mallaby thinks that is as it should be, because fund managers have an outsized appetite for risk. They make money by betting against central bankers who defend unwise government policies, lending to institutions in need of liquidity, and scouting out mispricings. They are useful discoverers of bad news. They are small enough to fail — which they regularly do — without jeopardizing the financial system.

Mallaby thinks hedge funds may be the new merchant banks, and he likens them to the top investment banks — the Goldman Sachses and Morgan Stanleys of 50 years ago. If he is correct, it would have been nice to see him put in a word for the various proposals for quick-response investigations aimed at figuring out what happened whenever one of them blows up. After all, it is what we do when an airplane crashes.

The IMF Playwrights

Journalists write the playbills, but economists write the plays. Few positions offer a better view of the unfolding drama than that of chief economist of the International Monetary Fund. It is not surprising, therefore, that all three holders of the job in the last 10 years have written cogent, journalistic books on the dangers ahead.

Last year, Kenneth S. Rogoff of Harvard University, in collaboration with Carmen M. Reinhart of the University of Maryland, wrote the well-received *This Time Is Different: Eight Centuries of Financial Folly* (Princeton University Press). This year, Simon Johnson, who returned from Washington to MIT's Sloan School of Management, published *13 Bankers: The Wall Street Takeover and the Next Financial Meltdown* (with co-author James Kwak), and Raghuram G. Rajan, back at the University of Chicago's Booth School of Business, delivered *Fault Lines: How Hidden Fractures Still Threaten the World Economy.*

Rajan, who now serves as an economic advisor to the prime minister of India, writes with the revisionist authority of someone who has come to see the last 30 years with fresh eyes. Flying into Moscow, he reflects on how far we have come: The highways are clogged with cars (which, of course, bring new problems). Returning to Washington, he notes that since the mid-1970s, nearly 60 cents of every dollar of real income growth has gone to the top 1 percent of households. The rifts that worry him are not just the imbalances in financial flows among nations; the inequalities that exist within the industrial democracies are just as dangerous.

Johnson, who thunders away against the political influence of the financial industry on the influential website the Baseline Scenario, spent only 18 months at the IMF before leaving in August 2008 to denounce the political power of the banks — first in an article in the *Atlantic* ("The Quiet Coup"), then on his blog, and finally in *13 Bankers.* The big financial firms have become an oligarchy, Johnson argues, comparable to those in, say, Argentina, Indonesia, or Russia — a self-perpetuating elite able to use its economic power to dictate government policy even in the midst of a meltdown. Only a bust-up of the biggest banks, based on antitrust principles, would curb their power. With the passage of the financial reform act, Johnson lost the battle, at least for now.

Does the debate sound familiar? It is reminiscent of the climate of opinion in the United States in 1912, in the aftermath of the Panic of 1907. Expert opinion then, too, was bitterly divided about what to do about the "money trust." In a four-way presidential race — Republican William Howard Taft, "Bull Moose" trust-buster Theodore Roosevelt, Socialist Eugene Debs, and Democrat Woodrow Wilson — the centrist Wilson won. The Federal Reserve System was established, but otherwise banking continued its familiar patterns.

But we haven't seen a panic like the one that began in 2007 before. That is why, in my view, Gary Gorton's *Slapped by the Invisible Hand* stands out clearly as the best business book of the year on the economy. He tells us what happened, and we will be quicker to understand the next mania, panic, and crash because of it.

A hundred years ago, political scientist Theodore Marburg noted that every panic brought something new to light. "Accumulating experience should in time enable us to prolong the interval of recurrence," he wrote, "if not eventually to prevent the recurrence entirely, just as epidemics of disease, formerly thought inevitable, are now prevented." It took a while, but he was right. Once we got the hang of it, the quiet period lasted three-quarters of a century. +

David Warsh (warsh@comcast.net) is the proprietor of EconomicPrincipals.com, an independent economics journalism site. He covered economics for the *Boston Globe* for 22 years and is a two-time winner of financial journalism's Gerald Loeb Award.

Manfred F.R. Kets de Vries, **Reflections on Leadership and Career Development: On the Couch with Manfred Kets de Vries** (Jossey-Bass, 2010)

Charlene Li, **Open Leadership: How Social Technology Can Transform the Way You Lead** (Jossey-Bass, 2010)

Howard Kunreuther and Michael Useem, eds., **Learning from Catastrophes: Strategies for Reaction and Response** (Wharton School Publishing, 2010)

Robert I. Sutton, **Good Boss, Bad Boss: How to Be the Best...and Learn from the Worst** (Business Plus, 2010)

LEADERSHIP

Highlights IN A Low Year

by Walter Kiechel III

It hasn't been a good year for leaders, or for books on leadership. Can you think of a political honcho, with the possible exception of Brazilian president Lula da Silva, who hasn't been battered by anti-incumbent anger? Corporate chiefs fared little better, the heads of BP and Goldman Sachs being only the most brightly painted targets.

Although most of the leadership books published this year were not whipped up in a few months' time — to be sure, some read as though they might have been —

the sourness of this low, mean year seems to have infected even those that took a long time to create. Don't look to the current crop for a paradigm-shifting new way to think about what leaders do or who they are. Expect to be trotted through lots of overly familiar ideas and precepts: Self-awareness is critical to a good leader, for example (who knew?), and the right kind of leadership can make a whopping difference to the productivity of the team.

The books that break through the prevailing torpor do so mostly by confronting traditional notions of leadership with new circumstances, slap-in-the-face challenges almost "ripped from the headlines" (though by now even that phrase seems pretty old). How do you lead in a world where everyone under 40 appears to be Facebooking and tweeting? What can you do to prepare yourself and your organization for those supposedly once-in-a-generation disasters that seem to be occurring every other month — a market-freezing global financial crisis today, a region-crippling oil spill tomorrow? And instead of wasting time debating the finer points of leader versus manager, what if we should just be thinking about "bosses"?

Head Shrinking

With a twist appropriate to this topsy-turvy year, the very best book on leadership represents a return to, or maybe a retreat into, a form of classicism. *Reflections on Leadership and Career Development,* by Manfred F.R. Kets de Vries, collects and updates articles written over the past three decades by one of the foremost proponents of what might be termed — though probably not by its practitioners — the *psychoanalytic school of leadership.* It's the second in a trilogy whose not completely felicitous subtitle gives away the author's bias: "On the Couch with Manfred Kets de Vries."

The psychoanalytic school fielded some intellectual powerhouses in its time: Elliott Jaques, who first identified and labeled the "midlife crisis," as well as Abraham Zaleznik at Harvard Business School and Harry Levinson at Harvard Medical School. But of late, it hasn't been heard from much. Indeed, Kets de Vries, at age 68, strikes me as the only big name still in the fray. Dutch by birth and educated in Amsterdam, at Harvard (he was a doctoral student of Zaleznik), and in Montreal, today he operates from multiple bases, including a professorship at INSEAD, a leadership coaching center he established there, and his own consulting firm. He is the author, coauthor, or editor of some 30 books. (See "Manfred F.R. Kets de Vries: The Thought Leader Interview," by Art Kleiner, *s+b,* Summer 2010.)

As a mode of therapy, psychoanalysis has been overshadowed by the rise of new treatments (cognitive behavioral therapy, for one), new drugs (Prozac and other serotonin-manipulating antidepressants), and skepticism about the scientific underpinnings of Freud's theories. But if you're prepared to accede to a few seemingly commonsense generalizations — that our past shapes the kind of individuals we become, that our behavior often unfolds in repetitive patterns — you can still find in the psychoanalytic viewpoint a trove of insights that are helpful or at least provocative. Kets de Vries mines this vein for all it's worth. To be sure, he'd probably say his work is rooted in psychology rather than in a narrow Freudianism, but it's squarely in the tradition of the (arguably) good doctor and his intellectual heirs.

As is the case with most collections of pieces that were previously published separately, the individual essays assembled here don't always fit obviously into the three buckets into which Kets de Vries sorts them: the origins of leadership, leadership and personality, and leadership and career development. My advice would be to forget the organizing architecture — the book is more mosaic than unfolding argument — and just plunge into the chapters whose titles catch your eye, whether it's "Leadership Archetypes: A New Organizational Constellation," "The CEO Life Cycle," or "Listening with the Third Ear."

You will be rewarded with sharp-edged observations couched in pithy phrases that open up explanations of how particular, recognizable types of executives behave. Backing these up are sketches of the inner forces that shape behavior and descriptions of how these often trace back to childhood. This is the beauty of the psychoanalytic school: More than any other approach, it attempts to get at the "why" of leadership. What makes some individuals more inspiring than others? What wishes, hopes, and fears, maybe not all of them available to our consciousness, propel us into the role of leader, or of follower?

Consider, for example, Kets de Vries's first chapter, "Narcissism and Leadership." His starting point that "Narcissists live with the assumption that they cannot reliably depend on anyone's love or loyalty" may be the single best one-sentence summary of what you need to know about such characters. After a quick march

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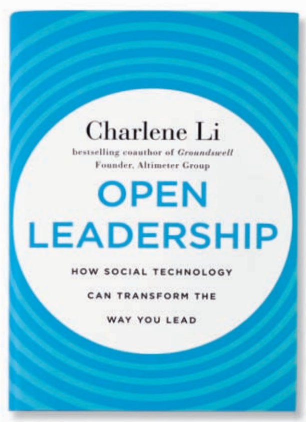
through the clinically recognized symptoms of narcissistic behavior, he takes us on a quick exposition of three varieties and their family backgrounds. The "reactives" work so hard and so anxiously to maintain their inflated sense of themselves that they'll distort reality before admitting anything is wrong. The unending quest of the "self-deceptives" to live up to exaggerated parental expectations leaves them with little emotional energy to share with others. And the "constructives" remind us that we can all use a touch of narcissism if we're to be bold, thoughtful, and even introspective.

Such analysis isn't mere theory-spinning. For me, the careful diagnosis and the etiology make the advice Kets de Vries offers all the more credible. For instance, don't expect to change a narcissistic personality — boy, has that proved true in my managerial experience — but know that devices like 360-degree feedback may let subordinates alert the organization to one gathering steam. And whatever you do, don't assign credulous, insecure, and inexperienced people to work for El Loco Grande; they'll only feed a disaster in the making.



The delights and rewards of *Reflections on Leadership and Career Development* extend beyond putting particular types on the couch. You'll encounter an elegant model of how your "inner theater" — your needs, temperament, even place in the birth order — shape the competencies you develop and your leadership style. There's also a full measure of the cool, reflective wisdom that a reader would hope for from an author who has spent years counseling executives. Learn why no CEO should spend more than 10 years in the post (and why Kets de Vries thinks eight an even better limit). The author's thoughts on retirement are in themselves worth a few long walks on the beach: "It has often been said that as we grow old, we have to give up certain things. I prefer to reframe the statement and say we grow old if we *fail* to give up certain things."

Getting Out There

No one would use the word *ruminative* to describe Charlene Li's *Open Leadership: How Social Technology Can Transform the Way You Lead.* Her book is perky, buzzy, and full of action recommendations and self-audits that leaders can use to gauge how their organizations are doing on various dimensions of openness. You can tell that the author has been doing a lot of presentations since she coauthored *Groundswell: Winning in a World Transformed by Social Technologies* (with Josh Bernoff; Harvard Business Press, 2008), which discussed the rise of social technologies such as Facebook, Twitter, and YouTube. That volume was called out as a best business book in our 2008 roundup.

With lots of real-world examples, some better digested than others, Li explores the effect of these new connective technologies on leadership. She considers them in two not always carefully distinguished senses: What does it take to be a leading company in this emerging era of hyper-openness? And what's required of a leader in the face of these demanding new realities? One executive she quotes, Ron Ricci of Cisco Systems, provides an elegant summary of the underlying challenge: "Shared goals require trust. Trust requires behavior. And guess what technology does? It exposes behavior."

To her credit, Li tackles head-on the biggest fear that companies register at the prospect of their people blogging, tweeting, or responding to those who do: "Aren't we going to" — sharp intake of breath here — "lose control of what is said about us, on our behalf, or of what we let our customers or competitors know?" Li sensibly points out that embracing social technology doesn't automatically mean "letting it all hang out," as a pre-Facebook generation used to put it. No, a company still gets to make choices, as for example Apple does in being open about a few things, such as its platform, but mostly clammed-up about everything else. (The author does allow that you may have to be as successful as Apple to get away with clamming up in the brave new world.)

As for what the new transparency means to individual executives, Li builds on the work of others, such as Warren Bennis's observation that to be a leader you have to display qualities that cause people to trust you. "You may be comfortable being authentic and transparent with people within physical shouting distance, but that's not sufficient in this new environment," Li argues. "To develop new open relationships, you'll have to *scale* your authenticity and transparency." A necessary first step is learning to use the technologies yourself. If you find your skin crawling at the prospect of sharing a few inner thoughts with anonymous legions out there in the electronic ether, you may need to look for a different line of work.

For decades now, firebrands like Tom Peters and Henry Mintzberg have been preaching that leadership should be demystified and parceled out within organizations. With the rise of the celebrity CEO, not to mention the installation of employee relationship management software, it has sometimes seemed that they were getting nowhere. Li's book inspired me with the happy thought that the likes of Facebook and Twitter just might end up forcing the change that some of us have been waiting for all these years. To survive the transition, high-ranking corporate types will have to pick up the subtlety ascribed to one of Li's heroes, Om Bhatt, who as chairman helped revolutionize the State Bank of India, in part through online communication. "Bhatt did not give up control," an admirer observed. "He let go of control."

"Talk more than others — but not too much." "Interrupt people occasionally — but don't let them interrupt you." "Try a little flash of anger now and then."

Contemplating Catastrophe

As recent events have made clear, there may be one area in which you will want to ratchet up the control level. This would be in anticipating and if possible averting disaster. For any executive worried that his or her organization might be overtaken by low-probability, high-consequence events, like a credit default swap implosion or a deepwater drilling fiasco, *Learning from Catastrophes: Strategies for Reaction and Response* could be the first step toward sleeping better at night.

This book is hardly beach reading (unless perhaps you're standing on a beach wondering what to do about a huge oil spill). It's a collection of 15 scholarly monographs bearing titles such as "Acting in Time against Disasters: A Comprehensive Risk-Management Framework" and "Dealing with Pandemics: Global Security, Risk Analysis, and Science Policy." The tome's editors, Wharton professors Howard Kunreuther and Michael Useem, contribute essays at the beginning and end to frame the discussion and bring it squarely into the province of leadership studies.

Thinking about risk isn't as much fun as, say, forging strategy or concocting a vision of the corporate future for everyone to rally around. But trying to imagine the almost unimaginable and provide against it may be the highest form of leaderly stewardship. And who would say that most corporate leaders have been doing a good job on this front of late?

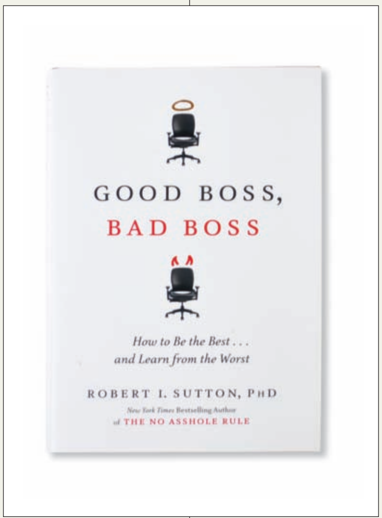
Don't read *Learning from Catastrophes* as you would most other business books — at a brisk clip, looking for the argument to build, expecting to be handed ready-packaged takeaways. (You'd be driven insane trying.) Experience it instead as the occasion for a series of executive meditations, thought exercises whose benefits will come at you obliquely. You're probably not that interested for its own sake in how the Chinese rebuilt their emergency management system, but in reading about the process you'll likely find thoughts bubbling up about your own organization's preparation — or lack thereof — for coping with the unforeseen.

Not that there aren't plenty of straightforward prescriptions, models, and checklists in *Learning from Catastrophes.* The book's lessons include how to balance prevention and mitigation, and how to understand the difference between crisis response and true recovery. A behavioral economics monograph on the cognitive biases that distort our perception of risk, causing us to underrate the direst possibilities, should leave you both a little scared and a lot more vigilant. The variety of the contributors and the disasters they treat, from global warming to the financial crisis of 2008–09, mean that when you finish the book you'll have a gratifying sense that you've looked at a tough subject from more angles than you thought possible.

Better Bossiness

Finally, for a head-clearing blast of sauciness, pick up a copy of Robert I. Sutton's *Good Boss, Bad Boss: How to Be the Best…and Learn from the Worst.* In a year when too many leadership books combined solemn with vapid, Sutton's decision to focus on the figure of "the boss" comes across as thoroughly refreshing. Even after decades of study, we may not agree on what constitutes a leader or all the proper functions of a manager, but everybody knows who the boss is.

If it's you, however long you've been at it, you can probably benefit from Sutton's breezy tour of the wisdom he has distilled from scholarly studies, his own experience, and the thousands of responses he received to his last book, *The No Asshole Rule: Building a Civilized Workplace and Surviving One That Isn't* (Business Plus, 2007). To say that Sutton, a Stanford professor, wears his learning lightly is to understate the case. At times he wears it like a vaudeville comedian's gonzo-striped blazer with accompanying plastic boutonniere shooting water. This is a weirdly merry book, perfect for a down year — but not an unserious book.



Consider, for example, Sutton on the imperative to take control. Yes, you as a leader have to, he counsels, in the sense that "you have to convince people that your words and deeds pack a punch." And he offers up a series of fairly familiar gambits to that end: "Talk more than others — but not too much." "Interrupt people occasionally — and don't let them interrupt you much." "Try a little flash of anger now and then." What redeems this from being mere Machiavellian gamesmanship is Sutton's admission that any control you pretend to is probably largely an illusion — there's a lot of play-acting in any executive role, he wants us to know. He makes the case that pushing too hard in the wrong way is a lot more dangerous than not pushing hard enough. Given the danger of the "toxic tandem" — your people are always scrutinizing you, at the same time that power invites you to become self-absorbed — leaders are always on the edge of becoming bad bosses, or even worse, bossholes. So he also advises you to blame yourself for the big mistakes, serves you up a seven-part recipe for an effective executive apology, reminds you to ask the troops what they need, and finishes with the injunction, "Give away some power or status, but make sure everyone knows it was your choice."

Another chapter title captures the overall aspiration Sutton advocates: "Strive to Be Wise." His is a street-smart, been-around-the-block-but-still-a-happy-warrior brand of wisdom, rooted in a boss's understanding of himself or herself coupled with an appreciation that bosses have to take action and make decisions, including doing lots of what Sutton labels "dirty work." As a boss "it is your job to issue reprimands, fire people, deny budget requests, transfer employees to jobs they don't want, and implement mergers, layoffs, and shutdowns." Wise bosses understand that although they may not be able to avoid such unpleasantness, how they go about the dirty work makes an enormous difference. Empathy and compassion are good places to start, says Sutton. Layer on constant communication with the affected, including feedback from them you really listen to, however painful it is. Finally, you'll probably need to cultivate a measure of emotional detachment, beginning with forgiveness for the people who lash out at you. And maybe reserving some forgiveness for yourself.

Indeed, *Good Boss, Bad Boss* is in its entirety a page-by-page guide to better bossly self-awareness. The variety of sources cited can be dizzying. On one page you may get a summary of two academic studies, a quote from Dodgers coach Tommy Lasorda, a recollection of Sutton's parents, and three examples of bad bosses sent in to Sutton's website. (At times, the book seems almost crowd-sourced and puts one in mind of Charlene Li on the power of social technology to expose behavior.) What gives all this consistency and makes for an enjoyable read is Sutton's voice throughout — at times yammering, on rare occasions bordering on the bumptious, but in general so "can you believe this?" ready to laugh at the author's own pratfalls, and so eager to help, that the net effect is sneakily endearing. Rather a comfort in a low, mean year. ✚

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INNOVATION

Innovation AS A Social Act

by Krisztina "Z" Holly

Steven Johnson, **Where Good Ideas Come From: The Natural History of Innovation** (Riverhead, 2010)

John Hagel III, John Seely Brown, and Lang Davison, **The Power of Pull: How Small Moves, Smartly Made, Can Set Big Things in Motion** (Basic Books, 2010)

Clay Shirky, **Cognitive Surplus: Creativity and Generosity in a Connected Age** (Penguin Press, 2010)

When I was a young engineer, I thought innovation was primarily a technological act aimed at creating new gadgets and devices. Then I became an entrepreneur and learned that innovation is also a business act, requiring the application of sound management principles. Now that I'm in the academic world, working at the intersection of entrepreneurship and innovation, I realize that innovation — in its truest, most productive form — goes far beyond the marriage of business and technology. Innovation is first and foremost a social act, and it requires human connections to thrive.

A surprising number of this year's books on innovation are focused on the application of design principles to products and companies. They are worthy books, and it's good to see design thinking gain wider recognition. But this ground has already been broken, and they are for the most part how-to books — perhaps useful, but not particularly original. Instead, the year's best business books on innovation explore new territory and illuminate the fundamental social principles that underlie the innovation process.

A single thread weaves through these books: Innovation is a team effort. But not a team effort in the ways that you might imagine. It's an effort among individuals, organizations, and society as a whole. Each book highlights a different aspect of the social life of innovation, along the winding path that ideas take through creation, diffusion, and transformation.

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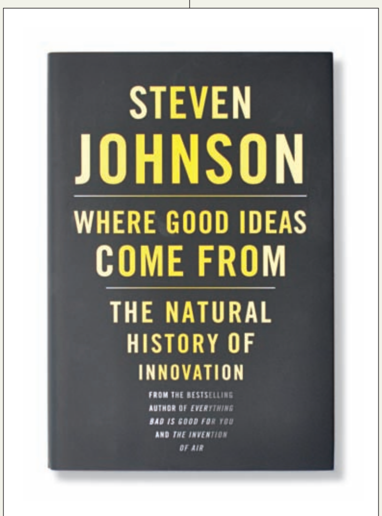
Creation

To put the social aspect of innovation in context, let's rewind a few millennia. According to Steven Johnson, the author of *Where Good Ideas Come From: The Natural History of Innovation,* sometime between 10,000 BC and

5000 BC, humankind hit a watershed moment: People began inventing in earnest. Before that, they built on one another's ideas so slowly that it took 30,000 years to advance from mining to metallurgy. But then a big shift happened. They cast aside their hunter-gatherer ways and settled in cities, and shortly thereafter, a giant explosion of innovation occurred. The alphabet, currency, measuring sticks, aqueducts, cement, writing, bread, and wheels — these are just a handful of the vast number of world-changing inventions that our forebears developed during this period.

Something happened when humans put down roots, Johnson argues. Ideas started bouncing between individuals, growing and improving, in a web of connections he calls liquid networks. Unlike a gas, in which molecules rarely bump into one another, or a solid, in which molecules do not move from place to place, a liquid represents a free-flowing, high-contact medium. Cities provided such an environment for human thought; ideas collided within them, people learned faster, and ideas spread more widely.



I would point out that this notion of liquid networks can also help explain why universities are such hotbeds of creativity. Academia is based on the philosophy of sharing and building on ideas in an open environment, with students and faculty in close proximity, creating a rich intellectual stew. Accordingly, over the years universities have germinated game-changing ideas as diverse and valuable as the Internet, recombinant DNA technology (the basis for the biotechnology industry), liquid crystal displays, magnetic resonance imaging, Kentucky bluegrass, Plexiglas, open source software, the pacemaker, insulin, rocket fuel, and the seat belt, just to name a few.

To support his thesis, Johnson cites a global study by Geoffrey West, a theoretical physicist and former head of the Santa Fe Institute. West found that the creativity of a city scales to the quarter power with respect to size. What that means is that a metropolis 50 times the size of a nearby town is, on average, 130 times more innovative on measures such as the quantity of inventors, number of inventions, research and development budgets, and so on. Further, West found that the average resident in that city is three times as creative as his or her smaller-town neighbor.

Johnson offers double-entry bookkeeping, a key tool in the practice of capitalism, as an example of an important innovation arising from liquid networks. Described by Goethe as one of the "finest inventions of the human mind," double-entry bookkeeping was codified in the trade capitals of northern Italy during the Renaissance. Its development, says Johnson, stemmed from the spillover of ideas from one merchant to the next as markets morphed from the feudal system into early capitalism, and relationships between people became less hierarchical and more interconnected. Interestingly, despite the importance of the innovation, no one person ever claimed credit for it.

Examples like these have implications for the design of office space and business processes. The proverbial watercooler — the site of countless discussions ranging from the gossipy to the profound — can have an incredible generative effect. John Seely Brown, former director of Xerox PARC (Palo Alto Research Center), once told me how the center's coffeemaker was connected to its computer network, sending a friendly notice when the coffee was brewed to lure researchers into impromptu social moments that helped feed their creative culture. Organizations as diverse as the highly successful Pixar Animation Studios Inc., owned by the Walt Disney Company, and CERN (the European Organization for Nuclear Research), the organization responsible for the Large Hadron Collider near Geneva, design cafés and social areas into the core of their buildings so that employees with varying job descriptions can serendipitously meet and form their own liquid networks. Executives who are overly focused on titles and reporting structures should take note: Networks can be much more powerful than hierarchies in stimulating the creation and sharing of ideas.

In addition to liquid networks, Johnson explores six other patterns that underlie especially fertile ecosystems for innovation: the adjacent possible, the slow hunch, serendipity, error, platforms, and exaptation (a term borrowed from biology for the functional shift of a trait during an evolutionary process). Each pattern is illustrated with delightfully fresh and often surprising examples from a wide array of sources — history, evolutionary biology, chemistry, the U.S. Department of Homeland Security, urban planning, digital culture, and neurology — which stretch the reader's mind, cultivating new ideas in and of themselves. Although the book does not address the social impacts of creativity per se, its themes and examples clearly underscore the role that social phenomena play in the shaping and creation of ideas. For these reasons, I feel it is the best business book of the year on innovation.

Diffusion

Social interaction is a critical factor in the generation of ideas, but innovation is more than creativity. Innovation is the process of transforming new ideas into tangible societal impact. Society plays an essential role in this process, which starts when a concept has sparked but before the fire has spread.

An idea is not an innovation unless it is adopted and scaled, and the innovator's ability to harness society in this quest can either make or break the idea. Addressing this challenge, *The Power of Pull: How Small Moves, Smartly Made, Can Set Big Things in Motion,* by John Hagel III, John Seely Brown, and Lang Davison, starts where Johnson's book leaves off. (Disclosure: John Seely Brown is a friend of mine and a member of the board of councilors that advises me at the University of Southern California's Stevens Institute for Innovation.)

The Power of Pull paints an optimistic view of the world based on a new paradigm, called "pull," which is enabled by an unprecedented acceleration in technology and can be highly profitable if harnessed effectively. Under this paradigm, individuals and corporations must develop the ability to pull together the building blocks of successful innovation, to "draw out people and resources as needed to address opportunities and challenges," according to the authors. This new world belongs to "global hunter-gatherers" who repeatedly put themselves into serendipitous situations. They skillfully attract and connect with one another to rapidly add value to their projects, and they add reciprocal value to the initiatives of others.

The pull approach stands in sharp contrast to the old-fashioned mind-set of "push," in which organizations try to anticipate demand and push their ideas, in the form of products and services, out to their customers. In this paradigm, bigger is better, resources are scarce and centrally allocated, elites do the deciding, and all negotiations are zero-sum games. The authors offer compelling and frightening evidence that this widely used approach is outmoded and has led to great instability and diminishing returns for today's corporations: Competition is intensifying on a global scale, customer loyalty is declining, corporate returns on assets have dropped to less than a quarter of what they were a few decades ago, stock prices are much more volatile, and churn in the S&P 500 is accelerating. By all measures, the authors conclude, corporations are ailing, no matter how hard they push.

In the push world, knowledge is an asset to be closely guarded. But in the pull world, knowledge goes out of date much too rapidly to hoard. Modern hunter-gatherers share knowledge because they know they can create more value by harnessing the flow of new knowledge than they can by capturing and stockpiling it. The authors illustrate this point with examples from the software and apparel industries, in which companies have leveraged customers, suppliers, and stakeholders in their search for innovation.

Take, for example, the experience of SAP AG, one of the world's largest software companies, during its transition to a service-oriented architecture. Company leaders were convinced they had a great product on their hands. The value of their technology was not the issue. Their concern was customer adoption, and they faced a chicken-and-egg scenario in which customers would not be able to see the benefits of the new product until they had worked with it. In light of this conundrum, the company launched a series of forums, blogs, wikis, and videos called the SAP Developer Network, which encouraged peer-to-peer interactions. With 1.2 million people now participating in these online communities and helping one another, the program has been very suc-

Relying on trust-based relationships to accelerate one's business lies outside the comfort zone of most corporations, but it can lead to incredible results.

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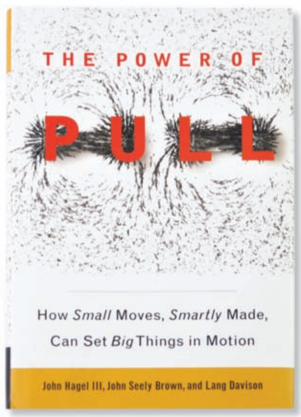
cessful at both accelerating product adoption and building and sharing knowledge.

At first, *The Power of Pull* may sound like a reprise of Henry W. Chesbrough's book, *Open Innovation: The New Imperative for Creating and Profiting from Technology* (Harvard Business School Press, 2003). But the authors of *The Power of Pull* are talking about much more than a short-term transactional approach to finding and exploiting ideas; they advocate developing longer-term relationships based on trust.

Relying on such trust-based relationships to accelerate one's business lies outside the comfort zone of most corporations, but it can lead to incredible results. I saw this firsthand in 2009 when the USC Stevens Institute for Innovation worked with the prestigious TED conferences to conceive and host the first independently organized TED event, TEDxUSC. Given TED's valuable brand and high standard for quality, I was pleasantly surprised that TED leaders agreed to explore the idea when it was still in its conceptual stage, instead of trying to maintain full control and pursue expansion opportunities solely by growing their own organization. The latter action would have followed the traditional push model. But TED's leaders took a chance, and once we helped work out the kinks, they established the TEDx licensing program, which enables nonprofit organizations to host independently organized, TED-like events. Within a year, nearly 1,000 TEDx events were scheduled in 60 languages all around the globe.



The Power of Pull should prompt executives to reconsider how knowledge, intellectual property, and collaboration are managed within their companies and how key functions, such as HR, IT, and customer support, should be changed to take advantage of this new paradigm. It should also prompt such questions as: How can power and influence be channeled to the company's edges and into its networks? How can pull enable the company to learn faster and better? What would the company be like if developing talent were its first priority? And most importantly, how can the business attract and access the intellectual energy of people outside its borders for maximum scale and success?

Hagel, Seely Brown, and Davison take a broad view of innovation, citing examples as wide-ranging as multinational corporations, teen surfers in Maui, Iranian protesters, World of Warcraft gamers, and entrepreneurs. The book is dense; at times it feels as though the authors tried to fit too much into their manifesto. Expect to spend some time digesting it; its ideas are complex — but also genuinely game-changing.

Transformation

Society plays a critical role in the development and successful diffusion of innovations, but it also affects innovations in a third way: It shapes them. And often, it changes them in ways that are outside the control of innovators, meaning that the best innovators can do is anticipate and adapt. A good way to do that is to read Clay Shirky's new book, *Cognitive Surplus: Creativity and Generosity in a Connected Age.*

Shirky, who teaches in New York University's Interactive Telecommunications program, has proven to be one of the most insightful writers on the revolutionary effect of the Internet. In this book, he digs deep into the social DNA of humankind to tell a story — an unfinished story — of an opportunity of global scale that he challenges the reader to meet. In the process, he illuminates how society's partnership with innovation can lead to surprising and wonderful results.

The world has time on its hands, says Shirky, an inordinate amount of free time totaling more than a *trillion hours* a year, which is now spent mostly in front of the television in many modern societies. But instead of watching TV, he argues, people should be using those hours in creative endeavors, sharing their work for societal gain.

I celebrate this as an idea whose time has come — yet again. A hundred years ago most of us would have been rolling up our sleeves to make a living or to fix something that was broken. Looking further back, the creative acts of singing, dancing, and telling stories by the campfire were an essential part of our everyday lives. It's only recently, in the last half century, that we have been turning our backs on our tribal heritage of creating and sharing. We've become consummate consumers, of products, services, and media. Fortunately, however, the Internet — our new digital campfire — has finally begun to patch up our temporary estrangement from our communal nature.

It is in this context that Shirky introduces a big opportunity, and it's only natural that our social side should embrace it. The Internet and its tools have reduced the cost of and lowered the barriers to creating content and connecting people. As a result, everyone who has access to these wonders has the opportunity to shape the future. For instance, the photographs that people upload and the reviews they post by the millions can become the collective foundation for future applications and communities. With this newfound ability to participate, people can contribute to world-changing innovations, like Ushahidi.com, a crowdsourced, online reporting platform that was first used by Kenyans to report violent crimes in real time, and now has spread globally.

Shirky is a great storyteller. He weaves his points into a journey that is thought-provoking and accessible; he explores the many facets of social science for insights that are fresh and relevant. *Cognitive Surplus* strikingly illustrates how society is guiding the ultimate direction of many innovations. Businesspeople should take heed. If they don't, they might miss how social media is shaping their industries, underestimate the opportunity to leverage stakeholders and customers in the creation of their products and services, and fail to grasp the influence of open source models on their bottom line.

I would offer Facebook as an excellent example of harnessing society's ability to influence innovation. "I could have never imagined all of the ways people would use Facebook when we were getting started 6 years ago," founder Mark Zuckerberg wrote in July 2010, the day the company's user base hit 500 million. Zuckerberg's willingness to allow his customers to shape his site has been a key ingredient in Facebook's runaway success.

My one disappointment with Shirky's book is that it focuses only on new digital tools, and misses a parallel revolution that is enabling people to create and share in the physical world. The up-and-coming "maker" culture — highlighted in Cory Doctorow's sci-fi novel *Makers* (Tor, 2009) and Chris Anderson's article "In the Next Industrial Revolution, Atoms Are the New Bits" in *Wired* magazine in 2010 — is powered by a new box of tools accessible to practically anyone: US$2,000 CNC (computer numerical control) machines and $1,000 MakerBot 3-D printers, easy-to-program microcontrollers like the Arduino, public open-access workshops like TechShop, and micro-factories and global supply chains ready to manufacture and ship small batches of a new product anywhere around the world. Manufacturing is becoming democratized; your next-door neighbor might be building the next electric car or manufacturing and selling accessories for the iPad.

The implications of this mashup of free time and tools, whether physical or digital, should not be understated. Shirky demonstrates how a convergence of opportunity, means, and motivation will enlarge society's role in innovation. The only question that remains: What benefit will emerge? Shirky wonders whether we will use our new digital tools for pursuits as trivial as lolcats — or for saving lives. He is optimistic about the answer. Let's hope he is right.

The ultimate insight to be gained from this year's best business books is that innovation is a team effort and we are all on the team. So although innovation concerns translating ideas into societal impact, it equally concerns the impact of society on the ideas. It is this complex interplay between people and ideas that makes the process of innovation so challenging — and so fascinating. +

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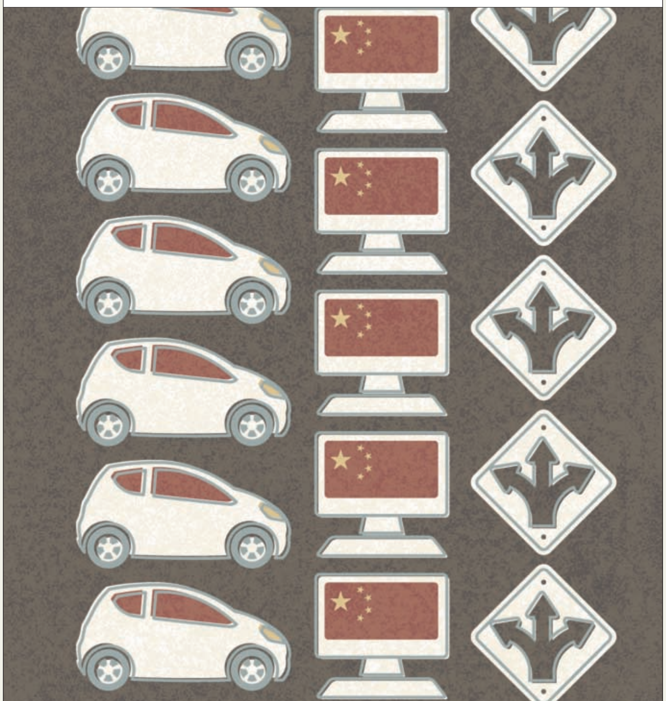
Marina Yue Zhang with Bruce W. Stening, **China 2.0: The Transformation of an Emerging Superpower...and the New Opportunities** (Wiley, 2010)

Peter Hessler, **Country Driving: A Journey through China from Farm to Factory** (Harper, 2010)

Elizabeth C. Economy, **The River Runs Black: The Environmental Challenge to China's Future** (2nd ed., Cornell University Press, 2010)

Edward Tse, **The China Strategy: Harnessing the Power of the World's Fastest-Growing Economy** (Basic Books, 2010)

CHINA



Probing China's Infrastructure

by Sheridan Prasso

Too many books about China fall into one of two dichotomous categories: "good China" and "bad China." In the former, a rising China presents tremendous opportunities for those who figure out how to lasso and ride the "great dragon," profiting from its enormous economic power. In the latter, China is a threat, a rising Yellow Peril–tinged specter of repression and economic domination that imperils Western ideals and global supremacy. Both approaches have sold well, but neither offers the depth of understanding needed by corporate strategists.

In order to truly comprehend the opportunities as well as the risks posed by this massive nation, we need to read deeper. Rather than glossy overviews that postulate grand top-down theories, the best books about China start on the ground and probingly elevate our understanding. This year, they delve into China's growing technological backbone; the rapid, tendril-like growth of its nationwide highway system; the impact of its economic development on the environment; and the strategic implications of its societal transformation.

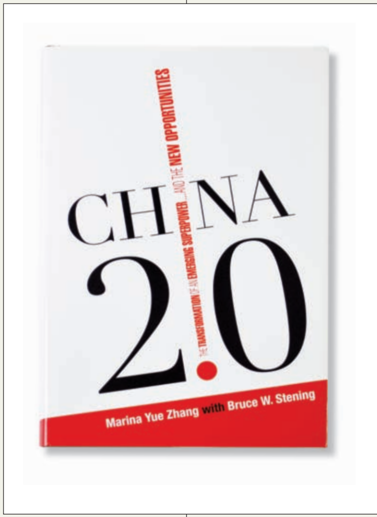
Consumers Arise

The unfortunately titled *China 2.0: The Transformation of an Emerging Superpower...and the New Opportunities* appears at first glance to be one of those once-over-lightly, lasso-the-dragon overviews. It is not. Author and management consultant Marina Yue Zhang grew up in mainland China, received her undergraduate education from Beijing University (her country's equivalent of Harvard), and then earned an MBA and a Ph.D. in management in Australia. She combines a well-researched perspective with the nuanced understanding of a native mainlander and filters them through well-communicated critical analyses. The result is a deeply informative book that examines the impact of technology on China's economic development and ongoing social transformation.

Zhang calls this new China "2.0" to distinguish it from the monolithic China of old, where information was imparted by the government to the people in top-down fashion and economic development was a function of central planning. She argues that "China 2.0 signifies a new phase in China's development and the need for completely revamped thinking about what China is and how it works."

It might be tempting to watch the travails of Google and eBay in China and think of the Chinese as technologically backward and isolated. But Zhang demonstrates that the very opposite is true. Despite living behind the great firewall of censorship, more than half of China's 1.3 billion people use mobile phones or the Internet. This connectivity is having a profound effect, according to Zhang. It is mobilizing public opinion and forging a new social order, as well as creating a level of political transparency and institutional reforms that Chinese leaders had managed to avoid until now.

China 2.0 is filled with surprising statistics. For instance, more than 160 million Chinese have a personal blog or other Web space. Zhang suggests that China's one-child-per-family generation is looking for social engagement in cyberspace to compensate for an isolated upbringing. More than 400 million Chinese are registered for QQ, an instant messaging application, and more than 75 percent of Chinese Internet users have one or more instant messaging accounts, compared to just 39 percent in the United States. Chinese rely much more heavily on instant messaging than they do e-mail, which is easier to censor and track. Only 56 percent of Internet users in China use e-mail at all, Zhang tells us, and then primarily for business communication.



Zhang tracks how connectivity is giving rise to a collective consumer power that could transform the nature of business in China. For example, Chinese consumers using mainly mobile phones to communicate organized a spontaneous boycott of French retailer Carrefour after a French pro-Tibet activist attacked a wheelchair-bound, retired Chinese athlete during the Olympic torch relay in May 2008. Carrefour had nothing to do with the attack, but suffered the wrath of consumer-driven, nationalistic protest. "The interconnection of millions of Chinese empowers them as a group, as consumers, and as social members in a political regime to form a collective power to interact with merchants and policy makers in a way they never experienced before," Zhang writes.

Even President Hu Jintao now conducts online chats with Chinese netizens, and has publicly stated that he tries to find time to gauge the public's reactions to government policies via postings on the Internet — and craft government responses accordingly. "Formerly, the Chinese public was a passive receiver of messages from the top of society or within very confined boundaries; today everyone can be a newsmaker and broadcaster," writes Zhang. "This collective power is only getting stronger and more sophisticated by the day." The implications are significant enough that Zhang advocates building interactive platforms into all product marketing plans. She notes that even a small niche of consumers reached in this way can create millions of sales — and millions of potential boycotters for unprepared retailers and makers of consumer products.

The evolution of the Chinese consumer is a particularly important topic because Chinese government policy and the interests of the West are both focused on promoting domestic consumption as a driver of future economic growth. So profound is the change that Zhang reports that China's longtime greeting "Have you eaten?" (*Chi fan le mei you?* or just *Chi le?*) — which originated in China's past famines and hardships — now has a 2.0 version among China's young, urban, connected consumers. They text one another: "Where are you?" (*Zai nar ne?*)

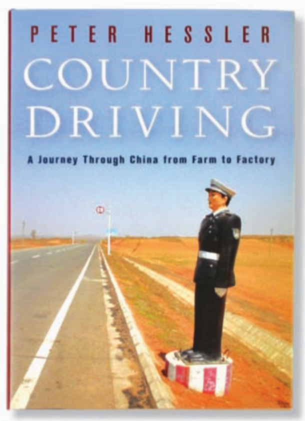
Some commentators argue that China's new form of "state capitalism" poses a threatening challenge to free markets. Zhang paints a more realistic picture of the nature of Chinese capitalism. It's neither single nor unified, she says. It is a body made up of three separate organs: state capitalism, which of course is omnipresent; a flourishing sector built on private capitalism; and international capitalism. The roles of the latter two are often overlooked by those observing China from the outside in. That's why it's important to have observers like Zhang telling us about the transformative changes unfolding in China 2.0 from the inside out. Her contextualized revelations provide the means for a new understanding, even for the well-initiated reader.

Road Trip

Peter Hessler often seems to stumble across insights in his epic 7,000-mile road trip across China. Along the way, in *Country Driving: A Journey through China from Farm to Factory*, this year's best book on China, he manages to explore the human sides of industrialization, entrepreneurialism, urbanization, the creation of the auto industry, the inadequacies of China's healthcare system, and the impact of the headlong building of thousands of miles of new highways modeled on the U.S. interstate highway system.

Hessler chooses his route from the only navigation tool at his disposal — a 158-page pack of road maps published by a company called Sinomaps. The roads on these maps look mostly like squiggly red capillaries without names; they tend to disappear altogether when they enter sensitive geographic areas that the government does not want exposed to visitors. Hessler decides to follow some of the capillaries that snake alongside a series of symbols that looks like this: ππππππππππ. It's the outline of the Great Wall.

China's car culture is brand new, of course, and virtually every Chinese on the road today learned to drive within the last 10 years. Sometimes there are no rules of the road, driver's license tests are almost laughable, and Chinese people's ability to read maps is nonexistent. Give rural Chinese people a map and they will turn it upside down wondering what it is and how it works. "In China, it's not such a terrible thing to be lost.... China is the kind of country where you constantly discover something new, and revelations occur on a daily basis," writes Hessler. "The place changes too fast; nobody can afford to be overconfident in his knowledge.... Nobody has today's China figured out." So, rather than attempting to paint China with broad-brush generalizations, he chronicles the history and social context of life along its roads in order to illuminate the dramatic changes of the present.



For example, in the 1940s, when the U.S. Army sent jeeps to the Nationalist forces of Chiang Kai-shek fighting the Japanese and the advancing Red Army, the vehicles suffered an inordinate number of accidents. They were designed for the right side of the road, but the Chinese drove on the left. So the U.S. Army proposed that all of China switch sides, and Generalissimo Chiang agreed. This gave a leg up to U.S. automakers, which rushed to enter China when trade opened decades later — beginning with the saga of American Motors and its Beijing Jeep in 1979, the textbook case for failed foreign partnerships.

Hessler follows that story to the origin of China's auto industry: A single Chinese engineer went to England and bought equipment from an outdated Ford factory. Then he went to Spain to acquire designs from a struggling Volkswagen subsidiary making a car similar to the Jetta. He secretly put them all together in China's poor Anhui province, contravening Chinese laws that forbid new car makers to enter the market (which the company later was able to have changed), and suddenly China had its very own national car: the Chery (*Qirui*). Chery Automobile Company is now China's largest domestic automaker, drawing the ire of foreign rivals for continuing to copy their designs on the cheap.

In a section titled "The Factory," Hessler chronicles a similar episode that unfolds before his eyes in the southern province of Zhejiang. A factory that makes the small metal rings that connect the straps of women's bras has sprung up in the new town of Lishui along one of China's brand-new, industrialization-creating toll roads. Its machinery was made according to specifications provided by the employee of another factory, who committed the parts to memory while at work and drew them when he returned home each evening. After a fair bit of tweaking the replica, the new factory became profitable — and then endured copycats of its own. It's a problem that many a Western manufacturer has faced in China, but as Hessler explains, it is part of the culture and the nature of China's current stage of industrialization.

If the reader is tempted to believe that the nature of China is to copy rather than to advance, Hessler reminds us about Francis Cabot Lowell in the 1800s. "Back then, the United States was the upstart society, and the British carefully guarded the designs for their water-powered Cartwright looms," he writes. "But Lowell visited the mills of Manchester under false pretenses and he used his photographic memory to rebuild the machines in Massachusetts, where his company became the foundation for the American textile industry." The implications for China's future are clear.

Country Driving explores how China clears the land to build new factory towns like Lishui, giving depth and background to the protests over land rights that frequently pop up in global news articles. It also records the transformation of a distant suburb of Beijing from rural village to tourist destination — and the creation of a class of entrepreneurs building restaurants and guesthouses to take advantage of the change — all based on a newly constructed road that made the village accessible to China's newly minted middle class for the first time.

Hessler's 2001 book, *River Town: Two Years on the Yangtze* (HarperCollins), which chronicled his time as a Peace Corps teacher in central Sichuan province, has been a must-read for every initiate to Chinese culture. This latest work, by the writer who has been called "America's keenest observer of the New China," provides an up-to-date companion and an unparalleled curbside view of the vast economic upheavals that a decade of 10 percent growth has wrought.

Crisis Reprised

Another probing examination of the impact of China's spectacular economic growth has resulted in an entirely different type of analysis — an in-depth look at the depletion of China's natural resources and skyrocketing rates of pollution. Elizabeth C. Economy's *The River Runs Black: The Environmental Challenge to China's Future* was a pioneering work when it first appeared in 2004. There have been a number of attempts to examine China's environment since. But Economy's second edition, updated throughout, once again proves the book to be the most comprehensive, well-researched, and thoughtful analysis of China's growing environmental crisis and its implications for the country's future development. (Disclosure: Economy endorsed my book, *The Asian Mystique*.)

The new edition examines the policy transformations that have occurred in China over the past two or three years in areas such as clean energy, climate change, and investment in and development of natural resources abroad. It assesses the impact of several recent defining events on China's environment and its environmental practices: the Beijing Olympics, the global financial crisis, and the Copenhagen climate change conference. It also traces the latest developments in the country's environmental movement: the growing role of environmental NGOs as watchdogs of both local governments and multinationals, and the appearance of urban-based environmental unrest beginning in 2007.

Beijing is falling short in its ability to address the flooding, desertification, water scarcity, and fast-dwindling forest resources that threaten its future, Economy finds, and therefore it must increasingly rely on other actors, including the private sector, to manage these problems. Further, environmental degradation in China has contributed to significant public health problems, mass migration, and economic loss. "Ignored for decades, even centuries, China's environmental problems now have the potential to bring the country to its knees economically," the author writes. She notes that estimates of the cost of environmental damage now range from 8 to 12 percent of China's US$4.9 trillion annual GDP (as of 2009).

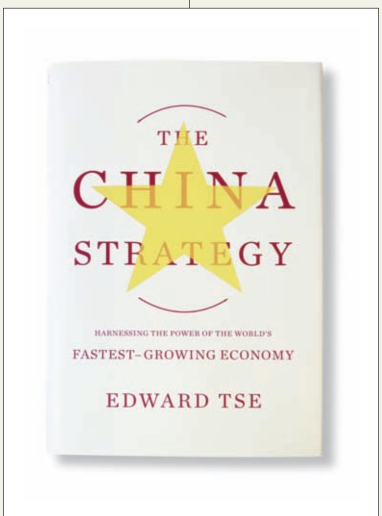
The local impact of these problems is urgently felt. Desertification has already affected the lives and productivity of some 400 million people; in southwest China alone, almost 100 million will lose their land within 35 years if soil erosion continues at the current rate. According to the Chinese government, the total land area in 2007 affected by sandstorms that were caused by desertification equaled an area half again as big as Alaska. The magnitude of these problems could threaten the stability of the government. "The authority and legitimacy of the Communist Party depend on how well China's leaders provide for the basic needs of their people and improve their standard of living," Economy writes. "Fundamental to the state's capacity to meet this challenge is the environment.... Thus, the environment will be the arena in which many of the crucial battles for China's future will be waged."

China's modern approach to environmental protection mirrors the approach it embraced for economic development: Devolve authority to local officials, open the door to private actors, invite participation from the international community, and retain only weak central control. But the result is a patchwork of environmental protection in which a few wealthy regions with strong leaders and international ties improve, while most of the country continues to deteriorate. Economy, who is the C.V. Starr Senior Fellow and director for Asia studies at the Council on Foreign Relations, argues that no matter

China's global influence has grown to the point where companies can no longer separate their China strategies from their global strategies.

what resources are invested, China will need to fundamentally reform the local political scene — enhancing transparency, the rule of law, official accountability, and resource pricing — to ensure that the environment will not produce a severe drag on economic growth and a challenge to the political system. "China's reform process has brought an extraordinary dynamism and energy to both the nature of China's environmental challenges and its environmental protection efforts," she writes. "Yet it also increases the uncertainty in attempting to chart China's future environmental path."

As for the likely outcome, Economy envisions three possible scenarios, handicapping none: China goes green to its own benefit and the benefit of the rest of the world, inertia sets in and the status quo continues, or an environmental meltdown in China (triggered by a prolonged economic downturn in which the Chinese focus even more intently on economic development at the expense of the environment) shakes the world. The United States, with its potential to transfer technology, and "its strong environmental enforcement apparatus and history of public participation in environmental protection," could play an important role in a positive outcome, she notes. "The environment provides a natural and nonthreatening vehicle to advance U.S. interests not only in China's environmental protection efforts but also in its basic human rights practices and trade opportunities," she writes. At the same time, bold leadership will be required to put in place the mechanisms to make true reform and change possible.



Four Chinas

The business environment for foreign players in China has grown more difficult in recent years as the government has endeavored to substitute domestic companies for overseas investors — to the consternation of the latter, who are being squeezed out of their present market shares. Consequently, much of the old advice about navigating China's difficult business environment has become outdated. In *The China Strategy: Harnessing the Power of the World's Fastest-Growing Economy,* Booz & Company's Chairman of Greater China Edward Tse, who was born in Hong Kong and educated in the United States, provides a comprehensive update, summing up the current environment and relating the key tales that are crucial to understanding it. (Disclosure: Booz & Company publishes *strategy+business.*)

Tse takes an umbrella approach to describing China's business milieu. He says that China's economy has four principal drivers: Open China, with its emerging consumer potential that offers short-term retail opportunities and longer-term market share challenges; Competitive China, with its entrepreneurial energy and nascent innovation that is fostering highly competitive indigenous companies; Official China, with its state capitalism and economic liberalization; and One World China, with its myriad business links and interdependencies with the rest of the world.

Tse's main thesis is that China's global influence has grown to the point where companies can no longer separate their China strategies from their global strategies — they must be integrated. "China is still typically viewed as a place 'out there,' a stand-alone location isolated from other aspects of global business," he writes. "That will change."

As China continues to innovate, it will make a bigger contribution to the laboratory of global production, and its global value chains will increasingly bring together "companies from China and other countries in unprecedented networks of businesses that cross national lines," Tse writes. He points to Sam Palmisano's globalization strategy at IBM, as well as those of KFC, Microsoft, Procter & Gamble, Coca-Cola, Pepsi, and Sweden's Tetra Pak, as examples of the success that such integrated strategies can deliver.

Tse delivers the familiar warning against going into China with blinders on and stereotypes intact. Instead, he says, companies must recognize that they will have to deal with the difficult realities of operating there, particularly in terms of the government, and adapt accordingly. Although this may seem obvious, countless unsuccessful foreign forays into China have proved how difficult it is to follow the standard advice. Tse provides a useful reminder: "The most successful one world companies will be those that negotiate the multilevel intricacies of relationships with officials, value-chain partners, and customers, then integrate these elements into a global framework. Bringing these complexities into coherent focus is the foundation of any China strategy."

The way to achieve this difficult goal, Tse maintains, is by mustering the strategic vision, versatility, and vigilance needed to build new business strategies that incorporate the four economic drivers. Versatility, for example, requires mental fluidity and resilience, speed of action and organizational nimbleness, coordinated operations among markets, constant monitoring of new developments, managing human capital, establishing and maintaining relationships in China, running Janus-faced operations, and having an effective executive in China. Again, obvious, but not always heeded by foreign players.

"No other country resembles China. No other country has so many opportunities — and challenges. And no other time has been so crucial for entering China as now," Tse concludes. "The paradoxical truth, however, is that a China strategy is not a strategy for entering China. It is a strategy for creating a global business, in a way that prepares for something that may be happening for the first time in history: the knitting together of worldwide enterprise into a coherent whole."

Whether such a rosy scenario will be borne out remains to be seen. Yet it's clear that a changing, growing China is inevitable. The best means of navigating its challenges, then, are knowledge and preparation. This year's best books on China are a good place to start. +

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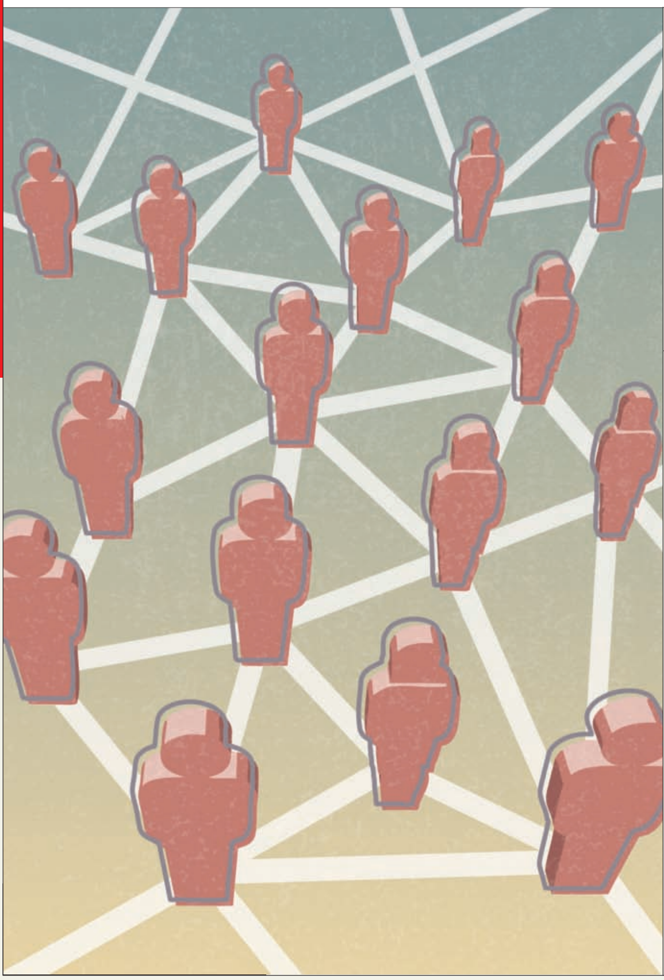
HUMAN CAPITAL



Rob Goffee and Gareth Jones, **Clever: Leading Your Smartest, Most Creative People** (Harvard Business Press, 2009)

Boris Groysberg, **Chasing Stars: The Myth of Talent and the Portability of Performance** (Princeton University Press, 2010)

Jody Heymann with Magda Barrera, **Profit at the Bottom of the Ladder: Creating Value by Investing in Your Workforce** (Harvard Business Press, 2010)

Talent Redefined

by Sally Helgesen

Peter Drucker famously defined a knowledge economy as one in which the human brain provides the primary means of production. He then noted the obvious corollary: that an organization's most valuable resource is lodged in the heads of its employees and goes home with them at night. In the decades since, this disturbing vision of their assets streaming out of the building every night has led many companies to make a reappraisal of the value of their employees and to place a higher premium on talent. But it has also led to a somewhat overexalted view of the role that star performers play in organizations and the extent to which enterprise is dependent upon individual talents.

The consequences of this overvaluation are many. The continuing wild escalation in senior leadership pay — often in defiance of performance — is a direct result of our infatuation with star performers, and our belief in their almost totemic power to produce results. It has also created a cult of individualism that causes many genuinely talented people to misunderstand the nature of their contributions, and to view themselves as free agents when they are not. Finally, it has perpetuated an industrial mind-set based on rigid distinctions between those who make decisions in organizations and those who carry them out, bolstering the elitist presumptions of the former and negatively affecting the performance of the latter.

This year's best business books on human capital suggest that this approach to talent is now due for a correction. Each sounds a cautionary note about overvaluing individual talent and suggests specific practices to address the resulting imbalances. (See "The Thought Leader Interview: Vineet Nayar," by Art Kleiner and Vikas Sehgal, *s+b*, Winter 2010.) Each of the books also makes clear that the school of talent strategy that was focused primarily on star performers and so-called high potentials is obsolete, and that it is time for a more integrated and contextualized understanding of the value that human capital provides.

Clever Management

Clever: Leading Your Smartest, Most Creative People, by Rob Goffee, a professor of organizational behavior at the London Business School, and Gareth Jones, a fellow at the school's Centre for Management Development, reinterprets the relationship between talent and the organization in knowledge-based environments in a fresh and compelling way. The authors define this relationship as an "interdependence among equals." In their view, talent is as critically dependent on organizations as organizations are on talent. And they believe that both talented people and their employers tend to underestimate the importance of this mutuality.

Goffee and Jones argue we need a more realistic way of understanding the role that organizational resources play in the exercise of talent; they believe we also need new approaches to leading talented people. *Argue* is the operative word here, for *Clever* is written as a manifesto. It eschews footnotes for passionate advocacy that is couched in clear and commonsense terms. This approach serves the reader well: *Clever* is wonderfully written, immediately engaging, and structured to provide a clearly articulated point of view.

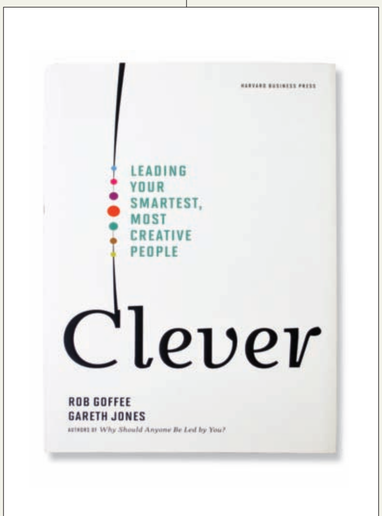
In the authors' formulation, *cleverness* is not just a catchy synonym for talent; it's a way of understanding how talented people — defined as "people with the potential to create disproportionate amounts of value from the resources that an organization makes available to them" — operate in the context of enterprise. "Clevers" are talented people who require an organizational context to thrive and provide value. This makes clevers different from talented individuals who are able to create value on their own, such as artists and solo musicians. The authors argue that the star system that has developed around this latter group, as well as the prevailing infatuation with so-called free agents, has distorted how we understand the former group, making it difficult to differentiate between the two.

Most books on talent speak in glowing (and often generic) terms about their subject, but *Clever* paints a more balanced portrait. The authors, for example, are explicit about the destruction that talented people can wreak, rightly pointing out that many highly dysfunctional organizations are full of clever people.

The book describes the characteristics that distinguish clevers. For example, the authors observe that a strong belief in their own intellect is central to the identity of clever people, which can make it difficult for them to let go of a project when it's time to move on. They note that clevers see themselves as highly independent and self-reliant, and usually care more about projects that engage them than they care about the organization as a whole. In other words, they have a free-agent mentality, and thus often fail to recognize the extent to which they rely on organizational resources to bring their passions to fruition.

At the same time, Goffee and Jones make clear that clever people are not easily replaced in organizations. This is because the knowledge they hold is, almost by definition, tacit. Their skills are in many ways more like the craft skills of the medieval period than the codifiable and communicable skills that typified the Industrial Revolution. As a result, cleverness is hard to capture in conventional knowledge management systems, and clever people know this: It is one reason they value themselves so highly.

Clevers need leaders who are explicit in their recognition of the symbiosis between individual achievement and organizational requirements, firm in representing the needs of the latter, and skilled in providing opportunities that enable clever people to make the most of their talents. Much of the book is therefore devoted to an examination of how to lead clevers — both as individuals and in teams. In one of the most useful and original sections of the book, the authors create a typology of clever teams based on the distinctive ways in which clevers perceive themselves: as techies, creatives, problem solvers, professionals, strategists, or senior managers. The authors explain the inherent strengths and characteristic weaknesses of each type, and give highly specific suggestions for how to lead them to accomplish larger objectives.



Goffee and Jones emphasize throughout that authenticity is required of anyone who seeks to manage clevers. This is in part because clevers respond best to respect, but also because they are quick to recognize and reject insincerity as well as boilerplate explanations and generic motivational spurs. Interestingly, research indicates that the youngest generation of workers — often referred to as millennials — place a similarly high value on authentic communication. This suggests that leaders in the knowledge economy should cultivate their ability to listen and to empathize. It seems that the management of human capital will require leaders to become more human.

Talent in Context

For readers who find *Clever* light on supporting research, *Chasing Stars: The Myth of Talent and the Portability of Performance* is a perfect companion volume, as well as a brilliant book that offers extensive documentation. It is also the best business book of the year on human capital.

In it, Boris Groysberg, an associate professor in the organizational behavior unit at Harvard Business School, offers robust support for the view that talent in a knowledge economy must be understood in an organizational context. His thesis, derived from classical human capital theory, is that superior performance is achieved when talented individuals optimally leverage organizational resources. His findings, and the force and richness of both his data and his presentation, should have an indelible effect on how we understand exceptional performance. He also offers clear cautionary lessons about the portability of talent.

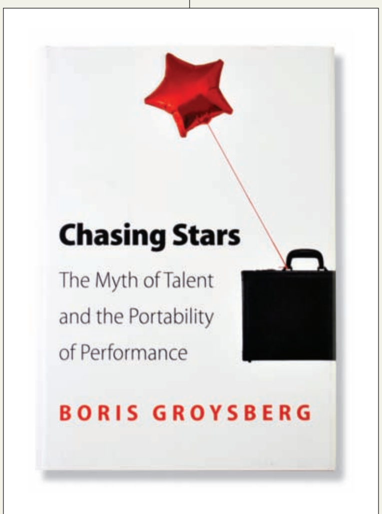
Groysberg anchors his observations in the results of an in-depth, eight-year study of one of the most emblematic professions in the knowledge sector: Wall Street analysts. He chose this group of professionals for two reasons: It offers a shared, objective, and publicly available means for measuring performance, in the form of *Institutional Investor*'s annual analyst rankings, and it constitutes a "remarkably compact" labor pool that is large enough to produce valid observations but small enough to lend itself to coherent study. Groysberg was also attracted to analysts as a subject because the belief that individual talent is the prime determinant of analyst performance has become a virtual article of faith on Wall Street — among analysts themselves as well as employers, investors, and the companies they cover.

Like Goffee and Jones, Groysberg notes that the analysts — clevers in every sense of the word — routinely overestimate their own value and underestimate the role of organizations in providing a platform that supports and enables their performance.

Like other knowledge stars, Wall Street analysts tend to see themselves as free agents. This is a signal mistake in Groysberg's view, because overemphasizing their independence often leads them (and their organizations) to imagine that their skills are highly portable. In fact, as his study reveals, the performance of star analysts declines sharply when they leave firms in which they have flourished.

Groysberg also posits that the dependence of talent on context makes knowledge more fragile than previously assumed, and more dependent on skillful leadership and carefully nurtured development. Such development has become difficult to sustain in an environment in which short-term market pressures dictate organizational decisions. The sad story of Lehman Brothers provides a case in point. Groysberg finds two periods in which the firm's brilliantly led research department accounted for repeated high annual rankings for its analysts. But he also finds that subsequent market pressures, especially the demand for cost cutting in the run-up to the company's IPO, led to rapid declines in these capabilities.

Although the evidence is strong that outstanding performance is firmly tied to organizational support, Groysberg points out situations in which this general rule does not apply. Not surprisingly, firm-specific knowledge tends to transfer less well than more general skill sets. Thus, star performers from companies with a strong culture, clear team structure, active development programs, and proprietary technology programs tend to do worse after leaving for greener pastures than those who have made their mark in firms that provide few resources and essentially treat employees as free agents — the old Donaldson, Lufkin & Jenrette (DLJ) being an example of the latter. Companies such as DLJ that invest less in their people foster talent portability, which exposes them to high turnover and makes them the incubators of the success of other firms. The transfer of whole teams — what Wall Street calls lift-outs — also appears to improve portability and increase the odds that stars will maintain high performance.



Groysberg's data additionally reveals that female star analysts' talents are more portable than those of their male counterparts, with women's performance improving rather than declining following a move. Drawing on interviews, he suggests several reasons for this. First, women are more likely to build the kind of external relationships that provide support during a move, often because their relationships within their own firms are weak owing to cultural constraints. Second, women's work experience makes them more skeptical of the idea that individual brilliance is enough to overcome entrenched cultural barriers. Third, women are more likely to weigh a variety of factors, including cultural fit, when contemplating a move, whereas men are more likely to base their decision on salary and bonus alone.

Groysberg's work calls into question the concept of an elite workforce of free agents building individual portfolios of skills — a concept that took hold in the wake of Drucker's observations about the primacy of human capital in a knowledge economy. Groysberg shows how "lateral demand poaching," which is based on the assumption that performance is highly portable, is driving up compensation, and he suggests that companies rethink these beliefs given the highly speculative market for human capital that has developed. He also shows how these assumptions have made it more difficult for organizations and their leaders to undertake the hard work needed to skillfully integrate exceptional talent into a larger whole.

Finally, Groysberg makes the case that the cult of individualism that has long been operative in the West — an ideology that is only becoming more entrenched on Wall Street — has led us to misunderstand how talent gets translated into achievement. He posits that the growing influence of Asia's more communal cultures will inevitably begin to change this, leading us to a more refined understanding of the factors that foster exceptional performance.

Talent Everywhere

Jody Heymann, in her meticulously detailed *Profit at the Bottom of the Ladder: Creating Value by Investing in Your Workforce,* also asks us to rethink how we perceive and define talent. She notes that in the past two decades, companies have tended to view employees as representing two highly contrasting camps.

In one camp are well educated, professional knowledge workers: the clevers, the high potentials, the stars. Companies tend to court this cohort, try to engage their deepest motivators, and pay them well to keep them performing. Most literature about talent focuses on these employees and, as Heymann points out, most of the firms that appear on "best companies to work for" lists tend to restrict their employee-friendly policies to those at the high end of the ladder.

In the other camp are "bottom-of-the-ladder" workers, who are widely assumed to be interchangeable in the old industrial mold. These employees — assembly-line workers, call center operators, retail clerks — are typically regarded as a cost that must be continually reduced if the organization is to achieve a competitive advantage. Even managers who don't entirely buy this line of reasoning feel pressure to adopt it because analysts routinely upgrade their valuations of companies that cut costs on bottom-tier labor, which is simply not viewed as an asset.

Heymann makes the case that this rigid division between those who are assumed to add essential value and everyone else is itself a manifestation of an industrial mind-set, with its stark divisions between the heads and the hands. Whereas *Clever* and *Chasing Stars* ask companies to reexamine their often exaggerated presumptions about the stand-alone value of the heads, and place their value in a broader organizational context, *Profit at the Bottom of the Ladder* asks them to rethink their presumptions about the potential of the hands, and to develop new ways of understanding, measuring, and supporting the value they can provide.

Like *Chasing Stars,* Heymann's book is the result of a wide-ranging multiyear study, though her population is the polar opposite of the high-performing analysts whom Groysberg examined. Heymann's team researched the relationship between profitability in the marketplace and good working conditions for bottom-tier employees in small, midsized, and large firms in a mix of sectors around the world, some publicly traded and others privately held. She interviewed and observed workers employed by an Alabama brick manufacturer, a Norwegian roofing supplier, an Australian auto parts manufacturer, a South African scrap metal dealer, a Peruvian social services provider, and an Indian cement maker, among many others.

In the course of her investigations, Heymann "went from believing that it was possible for companies to improve working conditions while being profitable… to realizing that the majority of the companies we studied had increased their profitability by investing in their employees at the bottom of the ladder." Her findings call into question the conventional wisdom held by firms, and the analysts they seek to impress. She also debunks the widespread belief that profitability is better served by providing incentives at the top of the ladder than by providing them at the bottom.

The book is organized as an integrated series of case studies. Each case shows how at least one company achieved remarkable financial results while addressing a specific element of frontline working conditions: wages, flexibility, healthcare, training, the establishment of career tracks, profit sharing, etc. The cases help readers better understand the measurable value that well-trained, motivated, engaged, and healthy frontline workers can bring to organizations. Taken together, they provide strong evidence that profitability is dramatically increased when companies improve the quality of life of their bottom-tier workers.

Heymann finds that many executives undervalue the potential of this approach because they have little understanding of what bottom-tier workers actually know and do. They therefore have no way to measure how improving performance in the lower ranks might benefit the larger organization. Conversely, she finds that organizations in which senior managers have bottom-tier experience do a much better job of leveraging the economies of knowledge available on the front lines.

Heymann offers Costco as an example. Because the company promotes from within (a policy it views as a competitive response to a shortage of talent) and because internal data suggests that those who have worked their way up the ladder make better leaders, Costco's senior managers are intimately aware of the value that skilled and experienced bottom-tier employees can provide. Costco CFO Richard Galanti, for instance, who explicitly condemns the pressure that Wall Street exerts on the company to cut frontline costs, argues that profitability in the big-box sector is highly dependent on volume per square foot, which in turn is affected by the productivity of the front rank of employees. He also notes that costly turnover, frequent absenteeism, community resistance (which has proven expensive for Walmart), employee class action suits, and inventory shrink (some of which is due to employee theft) are routine short-term costs that analysts and most senior managers rarely take into account, and that these measures skyrocket when frontline employees are treated purely as an expense. As another Costco executive observes, "When

Profitability is dramatically increased when companies improve the life of their bottom-tier workers.

employees feel aggrieved and shortchanged, you are always going to pay a price."

Heymann shows that careful planning is required to build the right incentive structure for bottom-tier workers, who are highly sensitive to small spurs that enable them to be more productive. She gives examples of companies that have done a good job of calculating these structures to support goals such as better teamwork, fewer defects, and more effective cross-training. She traces the development of virtuous circles of skill improvement that can occur when companies take the time to understand the nature of bottom-tier work. And she shows how resistance to valuing and supporting these employees can be overcome at the supervisory level.

Heymann and all the other authors of this year's best business books on human capital are explicit in challenging widespread assumptions about talent, knowledge, and value creation. They describe in detail what leadership in a knowledge economy really requires, adding insights to Drucker's famous formulation. In doing so, these authors shift the focus on talent from an overemphasis on stars to a richer, broader, and more contextual view of how people add value to organizations. +

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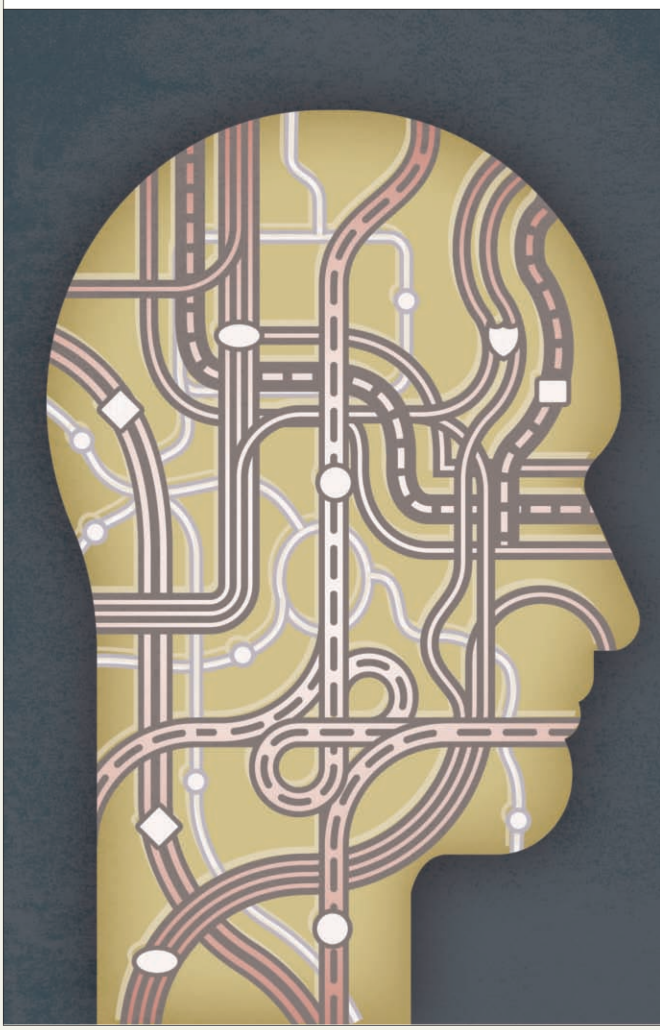
THE HUMAN MIND



Richard S. Tedlow, **Denial: Why Business Leaders Fail to Look Facts in the Face — and What to Do about It** (Portfolio, 2010)

Michael J. Mauboussin, **Think Twice: Harnessing the Power of Counterintuition** (Harvard Business Press, 2009)

Chip Heath and Dan Heath, **Switch: How to Change Things When Change Is Hard** (Broadway, 2010)

Paul Sullivan, **Clutch: Why Some People Excel Under Pressure and Others Don't** (Portfolio, 2010)

Daniel H. Pink, **Drive: The Surprising Truth about What Motivates Us** (Riverhead, 2009)

You Are WHAT You Think

by Judith E. Glaser

In 1931, Alfred Korzybski, a Polish-American scientist and philosopher, coined the phrase "the map is not the territory" to distinguish the words we use to describe reality from reality itself. He said that we tend to confuse the map with the territory, and we often don't realize that we are confused. We communicate with others as if we all share the same map — and the same world — which causes conflict and collisions.

General semantics, the discipline that Korzybski pioneered, studies the relationships between the map and territory: the ways in which the words we use affect how we think and, ultimately, how we act. In the decades since he introduced his pioneering concepts, we have learned — in part because of technologies such as fMRI that enable neuroscientists to study how the human brain works in real time and full color — that Korzybski's theories tell only part of the story. Words and thoughts are not always accurate reflections of reality, but they can and do provide the impetus for reshaping reality.

This year's best business books on the human mind explore the implications of the relationship between perception (what we see) and reality (what is), and argue for the use of mind-awareness approaches in managing real-world problems and issues. Neuroscience research has begun to confirm that brain connections are formed socially; when two people connect through a conversation, their neural pathways (as illuminated by fMRI scans) take on similar patterns. These changes in brain patterns are reinforced by further conversation — so that an organization that successfully draws employees into repeated patterns of thought and action may literally rewire their neural pathways. These pathways are further reinforced by the reactions of hormones, neurotransmitters, and other chemicals within the body.

Each of these books, in its own way, explores the contradictions between these findings and the conventional wisdom about behavior and the workplace. The authors integrate neuroscience into everyday life, shine a light on how we map the territory of our perceived environment, and help us figure out ways to map that territory more constructively.

Deniers Never Prosper

In *Denial: Why Business Leaders Fail to Look Facts in the Face — and What to Do about It,* Harvard Business School professor and business historian Richard S. Tedlow tells tabloid-worthy tales of what happens when business leaders find reality so unappetizing that they refuse to acknowledge it. The stories are of well-known companies, including Ford, A&P, IBM, and Coca-Cola, and the details and drama that Tedlow packs into them earn the book the title of best business book of the year on the human mind.

The executives featured in the stories travel different paths to failure, but they all separate themselves from reality by acting as if their maps are the territory. They refuse to adjust course even in the face of opposition from trusted advisors and incontrovertible evidence that they are following the wrong path. Thus, for example, Henry Ford's success with the Model T blinded him to the desires of his customers, and gave General Motors the opportunity to capture a winning share of the automobile market with a broader range of models and options. And the executives at A&P stuck with the grocery chain's private-label products even as their customers defected en masse to supermarkets that carried the national brands they saw advertised on TV.

> Companies can recover from denial, even when they seem permanently wed to their histories, their philosophies, or their belief systems.

The good news is that companies can recover from denial, even when they seem permanently wed to their histories, their philosophies, or their belief systems. Tedlow points to IBM, which got caught up in its own "bureaupathology," but learned, with Louis Gerstner's help, to conquer arrogance and overcome its history and culture. He says that Intel, DuPont, and Coca-Cola were also able to recover from denial by activating new "cultural DNA."

Tedlow offers different approaches to staying clear of the pitfalls of denial in each chapter. They include looking truth in the face every day — identifying how and where people are dismissing the truth or rationalizing their version of reality. In all cases, however, getting ahead of the denial curve is vital. Tedlow says that executives can accomplish this by encouraging straight talk, challenging assumptions, avoiding groupthink, and keeping their eyes open to the symptoms of denial in their own thinking and in others.

Denial explains why the "smartest people in the room" (as Enron's top executives were famously called)

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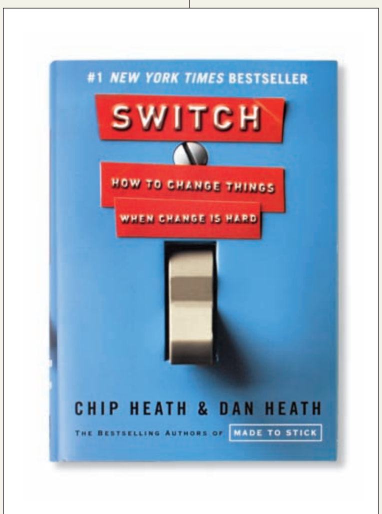
can sometimes be very dumb. It's a wake-up call to be sure that we don't allow ourselves to confuse our maps with the actual territory.

Better Decision Making

People make decisions by building models in their minds that are based on what has worked in the past, and then using those models as templates to follow. In *Think Twice: Harnessing the Power of Counterintuition,* Michael J. Mauboussin, chief investment strategist at Legg Mason Capital Management and adjunct professor at Columbia Business School, argues that old mental models can contain traps that lead to flawed decisions. Conversely, recognizing these mental traps can raise the probability of making good decisions.

Mauboussin takes us into the dark alleys of the human mind where decision makers can easily go astray. In chapter one, for example, he describes how we fall prey to three illusions that lead to poor decisions: We suffer from the belief that our ideas are superior to the ideas of others, the inclination to overestimate our chances of success, and the perception that we have more control over situations than we actually have. Deniers beware!



There is a long list of other traps in the book. When you go into a store to buy one thing and come out with another, you may have been a victim of "priming." You thought your mind was made up before you went into the shop, but you were a lot more susceptible to influence than you realized. How susceptible? Mauboussin cites a study that found that 77 percent of people shopping for wine in a supermarket bought French wine when French music was playing and 73 percent bought German wine when German music was playing. Yet nine out of 10 people claimed music did not influence their choices.

Crowd or herd behavior also influences our decision making. In chapter four, Mauboussin describes how we are overly influenced by authority and by our desire to be insiders. In studies in which groups were asked to solve puzzles, people posing as subjects were able to get the groups to agree to answers that they originally thought were wrong.

The failure to account for context is a decision-making trap that causes much grief in organizations. Knowledge acquired in one context does not necessarily translate in another context. That is why a new executive who does not account for the culture of the company he or she is joining will often fail. Combining knowledge and context, says Mauboussin, increases our chances for success.

The intent of *Think Twice* is not to make you feel insecure or to get you to distrust your instincts; far from it. The book brings into focus how people are unconsciously influenced by their experiences, by other people, and by the environment in which they find themselves. Once you become conscious of these influences, you become a better mental mapmaker and can more effectively navigate the territory of your life.

The Rider and the Elephant

According to Chip Heath and Dan Heath, authors of *Switch,* change is hard because there are two conflicting sides of the human brain, the rational and the emotional, vying for control. *Switch: How to Change Things When Change Is Hard* is their first book after the best-selling *Made to Stick: Why Some Ideas Survive and Others Die* (Random House, 2007). When most people try to foster change, say the Heath brothers, they focus almost exclusively on the rational side and ignore the emotional side, which then rebels, often sabotaging the change effort.

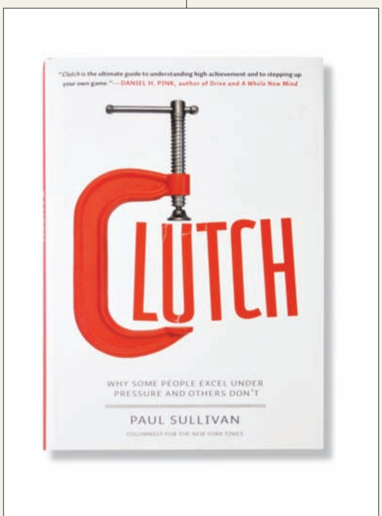
To describe and solve this problem, the authors draw on research from psychology and neuroscience, using a metaphor of a rider (the rational brain) and an elephant (the emotional brain). The authors are reductionists, in this approach, because new research is providing a richer and more complex picture of the brain's workings. Yet what makes the book worth reading is the practical framework it offers to executives who must undertake organizational change.

This framework involves three major activities. The first is to rationally motivate the rider. For example, instead of focusing on what people are doing wrong and nagging them about it, the authors suggest focusing on what they are doing right (the "bright spots") and encouraging them to continue their winning ways. The authors also advise would-be change makers to reduce the number of choices people have to make, thus eliminating some of the fear and uncertainty inherent to change, and to script the changes to ensure that people have a clear vision of the desired goal and the rewards of attaining it.

The second set of activities in the framework is designed to get the elephant moving in the right direction. The Heath brothers draw from motivational psychology to achieve this, focusing on the positive elements of change, "shrinking" the change to make it seem less difficult to attain, and building confidence so people feel that they are capable of attaining it.

The final set of activities is designed to show the rider and the elephant the path forward. It describes how change agents can tweak the environment to change behavior (as with playing music for shoppers), how they can create new habits that support change, and how they can reinforce them by enlisting the help of others.

Avid readers of neuroscience and psychology will find many familiar ideas in *Switch*; managers charged with creating change will find these ideas cloaked, usefully, in colorful stories and metaphors.



Grace under Pressure

In *Clutch: Why Some People Excel Under Pressure and Others Don't,* Paul Sullivan, a columnist for the *New York Times,* explores how to shine when the stakes and the pressure to perform are high. The secret that separates the players who are good in the clutch from those who choke, he says, is a well-developed ability to respond in stressful situations in a constructive way.

Sullivan summarizes this ability in five "clutch" principles and three "choke" principles that readers can use as guidelines for how — and how not — to deal with high-pressure situations. All the principles are copiously illustrated with stories of people and companies we know, which help the reader to see how the principles can be applied. Aside from his gimmicky reliance on the word *clutch,* Sullivan has written an easily digestible book.

The five key principles used by those who successfully handle pressure and perform well in clutch situations are focus, discipline, adapting, being present, and managing fear and desire. Focus is not the same as concentration; it is an intentional mapping of what you want to achieve. It requires thinking through the steps and the end game before you start playing. Discipline is staying with the plan, even in the face of great challenges. It is often the key to success. Adapting is knowing when and how to change the plan. It's about, Sullivan says, "fighting the fight, not the plan." Being present means being in a state of heightened awareness in the moment — it's analogous to the state described by Mihaly Csikszentmihalyi in his book *Flow: The Psychology of Optimal Experience* (Harper & Row, 1990). Finally, managing fear and desire is using these emotions as motivators and drivers of performance without allowing them to paralyze you.

Sullivan employs a chapter-long analysis of how Billie Jean King beat Bobby Riggs in the highly publicized Battle of the Sexes tennis tournament in 1973 to summarize the clutch principles. He calls the tournament a double-clutch situation because King was playing not only to win the match, but to challenge the conventional thinking about women in sports.

The three principles for avoiding choking, which are described in part two of the book, are included to help the reader steer clear of the behaviors that cause people to fail to meet their goals in high-pressure situations. The principles are taking responsibility for your role in the situation; not allowing overthinking to take you out of being present; and ensuring that overconfidence doesn't stop you from putting energy into focus, discipline, and living in the moment.

People who master clutch are really mastering the amygdala, the part of the human brain that responds to stress and that can sometimes seem to take control of us when we are in pressure-laden situations. Sullivan thinks we are all capable of creating stress-resilient maps that can enable us to traverse these toughest of territories. *Clutch* is a good place to start drafting such a map.

Beyond Carrots and Sticks

Reading *Drive: The Surprising Truth about What Motivates Us,* Daniel H. Pink's newest book, can be depressing, especially as you realize how large a role extrinsic rewards and punishments play in our lives. That's because the most prevalent means of motivation are what Pink calls if–then transactions: If you do this, then I'll give you that.

These incentives for changing behavior are based on the assumption that motivation is extrinsic — people will do more of what you want if you reward them for it (the carrot) and will stop doing things if you punish them (the stick). But *Drive* suggests that we should limit our use of "currencies," such as bonuses and fines that try to externally motivate people, and instead engage their intrinsic motivators, especially three paramount human needs.

These needs are autonomy, the freedom to make choices and determine our future; mastery, the ability to learn and grow our expertise; and purpose, the quest for meaning in our lives. They are wired into our brains, according to Pink, who supports his thesis by drawing on four decades of scientific research. When we do not satisfy these needs, we can fall into depression and lose our reason for being.

Pink singles out several companies that have put intrinsic motivation to work. He takes us inside 3M Company, where William McKnight, who served as the company's president from 1929 to 1949 and its chairman from 1949 to 1966, came up with the unusual idea of giving employees free time for what he called experimental doodling, a practice that yielded Post-It notes, among many other new products. Pink also points to Google's policy of allowing employees to devote 10 percent of their time to projects of their choice, which has produced services such Google News, Gmail, Google Translate, Google Talk, Google Sky, and more.

Pink explores the wide gap between what science teaches us about motivators and how companies actually seek to motivate people. For instance, one of the most prescient bodies of research presented in the book highlights the negative impact that extrinsic rewards have on productivity over time. This research found that extrinsic rewards narrow our focus to attaining the promised reward itself at the expense of everything else. As a result of holding this myopic view, companies such as Enron produce toxic environments and flawed decisions, as well as unethical and even criminal behavior.

Instead, says Pink, corporate leaders should create environments that enable people to be creative, empowered, and engaged, and that provide them with a sense of their intrinsic worth. The last section of the book, which contains an array of ideas, practices, questions to ponder, and action lists, should help in that endeavor.

One of the most prescient bodies of research highlights the negative impact that extrinsic rewards have on productivity over time.

Mapping the Intersections

Together, these books on the human mind are a welcome breakthrough in business writing. Each one addresses a sliver of the biggest challenge we have as human beings — how to align our map with the territory for sanity, for growth, and for success. Without this extraordinary ability, we fail to adapt to our changing world — and we get stuck in the past while the world evolves around us.

In the past, in mainstream publishing, you could not mix business topics with personal effectiveness topics. But these books confirm that the barrier has fallen. By integrating research from the fields of neuroscience and psychology into books about business challenges, their authors give us a new lens through which we can more effectively and successfully navigate our complex, unpredictable world. ✚

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Julian Birkinshaw, **Reinventing Management: Smarter Choices for Getting Work Done** (Jossey-Bass, 2010)

Jon R. Katzenbach and Zia Khan, **Leading Outside the Lines: How to Mobilize the (In)Formal Organization, Energize Your Team, and Get Better Results** (Jossey-Bass, 2010)

Richard T. Pascale, Jerry Sternin, and Monique Sternin, **The Power of Positive Deviance: How Unlikely Innovators Solve the World's Toughest Problems** (Harvard Business Press, 2010)

Srikant M. Datar, David A. Garvin, and Patrick G. Cullen, **Rethinking the MBA: Business Education at a Crossroads** (Harvard Business Press, 2010)

MANAGEMENT

THE Chorus Takes A Bow

by David K. Hurst

The profit-maximizing management framework that arose from the widespread adoption of the shareholder value model of corporate governance may end up as a notable intellectual casualty of the Crash of 2008. After 30 years of leveraging, downsizing, and outsourcing, this predominantly Western global economic system appears to be in decline. This could be a sign of a hemispheric financial cooling in counterpoint to the warming of the economies of the Far East.

The challenge this creates for management thought and education is as simple as it is stark. The prevailing business management framework, a set of practices and operating principles that was designed to produce stability and order in large, complex companies, and that has been successful enough in treating growth as "more of the same," no longer appears to work. How can it be modified — nay, rejuvenated — to accommodate innovation and invention, the new rallying cries for firms in the Western world?

Although there has long been a Greek chorus of critics prophesying the doom of the current framework, a wide range of opinion exists on what is now required. Some say that the basic principles of management are still relevant and valuable, but they are poorly taught and applied. Others call for an entirely new paradigm. Nobody is satisfied with the status quo, nor should they be. In this year's best management books, some of the members of the chorus step into the footlights.

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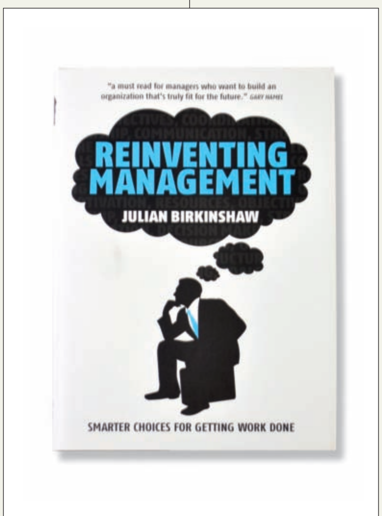
The Middle Way

In *Reinventing Management: Smarter Choices for Getting Work Done,* Julian Birkinshaw, professor of strategic and international management at the London School of

Business and cofounder of the Management Lab, contends that management has to change — but not radically. He charts what he claims is a middle way. According to Birkinshaw, companies need a management model that enables them to define objectives and motivate effort (the ends), as well as coordinate activities and allocate resources (the means).

Each of these four activities offers a spectrum of managerial options that range from tight to loose, writes Birkinshaw. For instance, activities can be coordinated tightly in a traditional bureaucracy, as they often are by firms in established markets, or loosely through an organizational plan that emerges naturally as a response to market opportunities and technical possibilities, such as Google uses. Resource decisions can be made hierarchically or by deferring to collective wisdom. In stable environments, objectives can be aligned tightly with corporate strategy; in turbulent situations, objectives can be pursued indirectly through the principle of "obliquity." Under this latter principle, to quote British military strategist Basil Liddell Hart, "The longest way round may often be the shortest way home." When it comes to motivation, employees can be attracted by a variety of material, social, and personal rewards.



Birkinshaw uses a two-by-two matrix to summarize four distinctive management models that represent combinations of these options: the planning model (tight ends, tight means), the science model (loose ends, tight means), the quest model (tight ends, loose means), and the discovery model (loose ends, loose means). Companies often begin their lives using a discovery model, but if they are successful, the majority of them gravitate to either a planning model or a science model. McDonald's, with its highly standardized delivery system, is an example of the planning model; consulting engineering firm Arup (the designer of such avant-garde buildings as Beijing's Bird's Nest Olympic stadium), with its holistic model of "total architecture" that embraces sustainability, humanitarianism, and quality, illustrates the science model. Some firms may try to hang on to the discovery model, as Google has, thanks to its phenomenal profitability. The least common model, that of the quest, is used by many investment banks.

These models may seem simplistic, but they do describe the management behavior of many companies, as well as reveal the traps they can fall into when they follow the models blindly. For Birkinshaw, the key to managerial effectiveness is for leaders to learn when changes to an organization's management model are necessary by identifying and analyzing the "blockers" that prevent people from doing their work, designing new methods for replacing or removing those blockers, and then experimenting with these methods.

The merit of Birkinshaw's approach is that it identifies the organizational context in which management models are practiced. By representing these models as decisions made by top management, however, Birkinshaw firmly places himself within the rational-choice approach of the academic world, stressing the "what" of corporate direction rather than the "how" of execution (and human involvement). His model is not a dynamic one: The pervasive use of two-by-two matrices tends to freeze everything, making the resulting choices look more like calculated trade-offs than creative integrations. Perhaps these are the starting positions of a dance between the polarities he identifies, with the steps and tempo yet to come.

Some clues to the steps and tempo can be found in *Leading Outside the Lines: How to Mobilize the (In)Formal Organization, Energize Your Team, and Get Better Results,* by Jon R. Katzenbach, a senior partner at Booz & Company, which publishes *strategy+business,* and Zia Khan, vice president for strategy and evaluation at the Rockefeller Foundation. They take a much more fine-grained approach to managing that is based on finding the right combination of the "logic of the formal" and the "magic of the informal."

In the three-part book, the authors focus on how individual managers can use informal connections and conversations to enhance the formal incentives and structures of a company — and, in the process, motivate individual performance and mobilize organizational change. Managers who can draw on both the formal and the informal as required have a high "organizational quotient" (OQ). This is a combination of intelligence quotient (IQ) and emotional intelligence (EQ) that balances disciplined and spontaneous actions, and rational and emotional thinking, depending on the demands of the situation.

The objective is *consilience,* which literally means a jumping together of the formal and the informal, a creative integration of "both…and" that harks back to Mary Parker Follett, the early-20th-century pioneer of organizational theory. This is the first of several evocative metaphors that the authors use to describe one of the most desirable but elusive phenomena in organizational life — those times when decisions, actions, and emotions jibe with strategic intent, when dynamic routines are constantly being improved upon, when employees are proud of their company, and when the company as well as the members of its ecosystem (partners, suppliers, and customers) all succeed.

Katzenbach and Khan stress that a managerial focus on the informal is not just a matter of being nice. People work and perform much better when they are treated with care and respect as individuals. The challenge for managers is how to accomplish this within the constraints and abstractions of a formal system that is designed to achieve scale by treating everything and everyone in the same way. Part of the solution, according to the authors, is to connect corporate values to work using stories and customers at the local level.

It is the managers' behaviors that matter most, but these are effective only if all the elements of the formal system enable the employee behaviors that managers are trying to encourage. Thus, for example, metrics should not be consumed purely by the upper levels of the hierarchy, or used only to judge performance against goals handed down from above. They should also serve as feedback signals for those responsible for doing the work; they should be crafted accordingly and understood in the context of everyday goals and priorities.

> The catalysts for solving problems are positive deviants, the few people who obtain consistently better results while working in the same context.

The Power of Context

The importance of context as a determinant of behavior is the central feature of *The Power of Positive Deviance: How Unlikely Innovators Solve the World's Toughest Problems.* One author is the redoubtable management writer and consultant Richard T. Pascale. The other two are Monique Sternin and the late Jerry Sternin, who passed away during the writing of the book. In the 1990s, as workers with the U.S. nongovernmental organization Save the Children, the Sternins pioneered the application of the positive deviance (PD) method of change to some of the world's most intractable social problems. PD is now being used to tackle complex social problems that defy technical or externally imposed solutions, such as societal inhibitions or cultural mores that cause people to refuse smallpox vaccinations or reject the use of mosquito nets.

PD is not a method for transmitting knowledge or sharing best practices; it involves changing behavior by changing social contexts. It recognizes that organizational habits, both good and bad, are sustained by subtle cues and triggers of which the actors themselves are usually unaware. When these cues and triggers are brought to the surface and actors' responses to them are changed, complex problems can be solved. The catalysts for this process are so-called positive deviants, the few people or small groups within a troubled community who obtain consistently better results while living and working in the same context (in other words, with access to the same resources and subject to the same constraints). The trick is to get everyone else to consciously choose to follow their example.

The authors take turns writing chapters that illustrate applications of PD, some of which are composite examples, combining several cases into one. Despite the drawbacks of such an approach, which makes it difficult to know exactly what happened at which site, the stories themselves are evocative and compelling. The most powerful one involves the grisly practice of female genital mutilation (FGM) in Egypt. In Vietnam, where PD was first used to alleviate child malnutrition, there was consensus that malnutrition was an undesirable condition. In Egypt, on the other hand, there was no such agreement on the perniciousness of FGM. The traumatic ritual was rarely discussed, but it was deeply embedded in the culture; as of 1997, 97 percent of Egyptian women had been circumcised in some way. Then Monique Sternin and her colleagues began asking the positive deviants — uncircumcised women and the men married to them — to talk about their lives on videotape, offering social proof that such people were just like everyone else. This step required a good deal of informal discussion and socialization before anyone was comfortable appearing on camera. The PD team chose a Coptic monastery far from Cairo — a safe place both physically and psychologically — to bring together small groups of women. Here they showed the women the tapes, and discussed the idea of changing the practice in choreographed conversations that used variations in space and pace and the palliative power of humor to reduce tension and put people at ease. The participants shared their stories and talked about their families, gradually breaking the code of silence surrounding FGM. Over time, the program spread: By 2000 the incidence of FGM among Egyptian women was down to 93 percent, and today official FGM abandonment programs are increasingly supported in that country.

The best way to think about the PD approach is as process consulting rather than content consulting. In the latter, the general assumption is that the organization has questions and the expert consultant brings answers. Process consulting turns that assumption upside down: The organization has the answers, but has not heard the questions. That's because the questions have not been posed in the right form and context — in a manner, in other words, in which any answers have clear implications for action. Positive deviance helps address these issues by providing the example of small groups of people who already have part of the solution in hand, and whose examples help their colleagues discover the solutions for themselves.

PD works as change does in nature. It affects a part of a system, but preserves the whole; it is incremental in the short term, but capable of producing dramatic evolution in the long run. This is the same way in which nature balances stability and turbulence with a complex set of interlocking and ever-changing dynamics. It's insights like these that make *The Power of Positive Deviance* this year's best business book on management.

Back to School

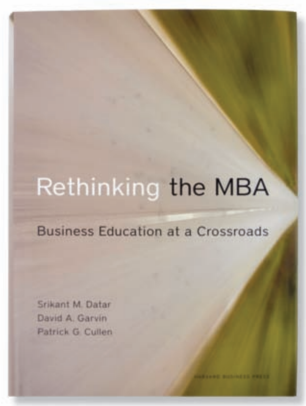
Business schools were subjected to repeated criticism before the economic meltdown, but the volume and frequency of the complaints have increased as the deleterious side effects of the profit-maximizing framework have become clearer. In 2007, Harvard Business School professor Rakesh Khurana wrote the instant classic *From Higher Aims to Hired Hands: The Social Transformation of American Business Schools and the Unfulfilled Promise of Management as a Profession* (Princeton University Press). (See "Uncategorical Insight," by James O'Toole, *s+b,* Winter 2008.) This year, a team of Khurana's colleagues at Harvard Business School, Srikant M. Datar, David A. Garvin, and Patrick G. Cullen, deliver *Rethinking the MBA: Business Education at a Crossroads.* This tome reports the findings of a cross-sectional academic study of the leading business schools in the U.S. and Europe.

The target audience for the book is deans of business schools and administrators of business programs, but the book is relevant for anyone interested in the evolution of management ideas and the way they are deployed. The authors address four broad themes: the need for change in management education, the need for a new balance between the "rigor" of research and the relevance demanded by practitioners, the redesign of the MBA curriculum, and the challenge of implementation.

Reinforcing Khurana's charge that academic pretenses have dwindled in business schools, the central metaphor used here is the business school as commercial enterprise, with value propositions (MBA programs) designed for different customer segments. Viewed as an industry, business schools have done well, with their production of MBAs rising sixfold over the past 30 years, and their revenues becoming an increasingly large portion of the overall financial base of their universities.

So what is the problem? Today, the demand for the core product of business schools — the two-year, full-time MBA — is sputtering, especially at the second-tier schools, and the gap is being filled by a host of competing products, such as part-time and executive MBA offerings and substitute qualifications. This has led to what the authors characterize as a "hollowing out" of the degree. In addition, considering that up to 75 percent of the graduating classes of some schools go on to careers in finance and consulting, the postcrash shrinkage of these sectors further threatens the future demand for MBAs. But the authors appear to have few concerns about business schools recovering their institutional purpose or mission: Instead, they think that business schools need to reassess and rebalance their commercial offerings in response to changes in the marketplace.

Rethinking the MBA makes the cut as a best business book this year because its conclusions, grounded in data and assembled coherently, present a clear, persuasive case for change in business school curricula — and because they are likely to be taken seriously in management academia. This book evokes an ambitious future for business schools themselves. The authors use the Be-Know-Do leadership triad, made famous by the U.S. Army at West Point, as a handy framework on which to base their primary contention: that ever since the Ford Foundation and Carnegie Foundation reports of the 1950s, business schools have overemphasized the facts, frameworks, and theories of the "know" component at the expense of the skills, capabilities, and techniques of "do" and the values, attitudes, and beliefs of "be." And they identify eight unmet needs of students, many of which are related to "being" and "doing." These include gaining a global perspective; developing leadership and integration skills; acting creatively and innovatively; and understanding the limits of models, markets, and other frameworks.



The authors acknowledge that the most effective ways to teach many of the topics they recommend are still not well understood; at a minimum, MBA students require teaching methods very different from those used in business schools today. Nonetheless, both the authors and the people they interview appear sanguine about the ability of business schools to deliver on these needs. Indeed, the new offerings from the six leading institutions the authors examine are impressive on paper: There are integrative global management courses, overseas campuses and exchange programs, experiential programs, and leadership laboratories, as well as integrated curricula and courses in integrative thinking.

The language is right, but as the unmet needs are matched with their corresponding solutions, one becomes concerned that these may be what longtime Harvard Business School professor Fritz Roethlisberger used to call verbal wands — fine phrases that may not be accompanied by the behavioral changes necessary to deliver on their promises. Rewriting the marketing brochures of business schools is easy enough, but how much change can one really make in the schools themselves, and over what time frame?

The typical business school is a siloed fortress, most of whose professors and deans prefer a fragmented, discipline-based curriculum because it gives them maximum freedom to pursue their own research interests. It's why many of them were attracted to the institution in the first place and how they have earned tenure. Changing their incentive schemes will not be easy. How realistic is it to expect such "disciplinarians" to deliver the integrated experiences designed to promote creativity and innovation that the authors describe? Team teaching is probably one of the keys to providing such experiences, but the authors acknowledge that its implementation has proved very difficult, and that the deans surveyed were almost all against it. Yet leading firms in the private sector mastered effective teamwork across the functional silos decades ago. If the business schools cannot handle this, can they really change? And if they cannot change, what is to be done about management education?

To answer that question, *Rethinking the MBA* should probably be read as part of a trilogy with two other books: the magisterial *From Higher Aims to Hired Hands,* and Matthew Stewart's acerbic critique of management philosophy, *The Management Myth: Why the Experts Keep Getting It Wrong* (W.W. Norton, 2009). (See "The Clay Feet of Management Science," by David K. Hurst, *s+b,* Spring 2010.) Readers of these three books might well conclude that the true objectives of management education are indistinguishable from those of the liberal arts: to provide an interdisciplinary education in literacy, numeracy, and an understanding of people, so that one can marshal all these competencies in the service of creating and running sustainable institutions.

Ironically, a model for this kind of education already exists outside business schools: It appeared in the form of politics, philosophy, and economics programs pioneered as the "modern greats" in England in the 1920s to train members of the civil service. Perhaps the reduced role of the business school might be to supervise students' trajectories through the entire university, organize the appropriate experiences, and teach only the technical finance and operations subject matter not available elsewhere. The bulk of the faculty could return to their true homes in other parts of the academy (economics, sociology, engineering, psychology), and stop duplicating the liberal arts and sciences under the guise of an MBA. Instead, the teaching of business would be integrated with the general arts and sciences, under the assumption that everyone who learned to be a generally capable individual would need to apply this knowledge to making a living.

In the process, the business school might even recover its sense of purpose. Such a resolution would support the conclusion that rigor and relevance can be neither reconciled nor balanced in theory. It is the role of science to separate the real from the relevant; it is the role and the craft of the manager to bring them back together again in the human enterprise. But this can be accomplished only through action. The antinomy between rigor and relevance does not require a choice to be made; it is a dilemma to be lived, and the best preparation for that is preparation for life itself. +

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Alan Brinkley, **The Publisher: Henry Luce and His American Century** (Knopf, 2010)

Warren Bennis, **Still Surprised: A Memoir of a Life in Leadership** (Jossey-Bass, 2010)

Daniel Okrent, **Last Call: The Rise and Fall of Prohibition** (Scribner, 2010)

Sarah Rose, **For All the Tea in China: How England Stole the World's Favorite Drink and Changed History** (Viking, 2010)

BIOGRAPHY AND HISTORY

True Tales OF Fortune

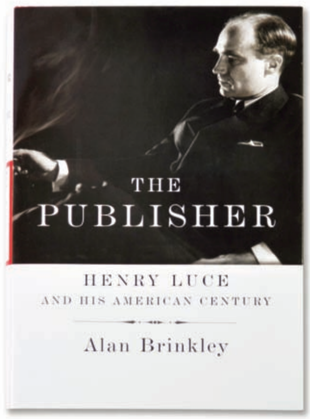
by James O'Toole

We read biography to better understand ourselves much as we read history to better understand our times. Four engaging new books admirably aid us with both those tasks. As so many things do these days, our review of the year's best business-themed biographies and histories begins — and ends — in China.

One Man's Life, Time, and Fortune

Editor and publisher Henry Luce (1898–1967) presided over the golden age of general-interest magazines. He was cofounder of *Time* in 1923 and, over the next three decades, created *Life, Fortune,* and *Sports Illustrated.* In *The Publisher: Henry Luce and His American Century,* celebrated and prolific historian Alan Brinkley serves up both an insightful account of the creation of those magazines and a brilliant character study of the entrepreneur who created them.

Luce was a complex character, a "striver" who sought a central role for himself on the world's stage, a man as ego-driven as he was pathetically insecure and lonely. Brinkley suggests that the crucible for the publisher's many successes — and his chronic unhappiness — was his early life in his native China, where he absorbed his missionary father's "seriousness, his ceaseless search for self-improvement, his energy, his ambition, his certainty of purpose." Indeed, the leitmotif of this masterfully crafted biography is Luce's lifelong search for the higher purpose that would define not only his own life, but the mission (clearly, he was his father's son) of his magazines and, ultimately, that of America itself.



While growing up in China, Luce had dreamed longingly of his Edenic homeland across the Pacific, a country he would not visit until he was 14 and ready to enroll in Connecticut's prestigious Hotchkiss School. He turned out to be more conventionally American in his values and beliefs than most of his fellow students at Hotchkiss (and later at Yale) who had been born and raised in the United States. Throughout his life, Luce would be his nation's quintessential booster, whose cheerleading culminated in his influential essay "The American Century" published in *Life* in 1941, in which the central thesis was that the United States had a sacred duty to bring democracy, capitalism, Christianity, and modernity to the world. He argued that America was, as it should be, the only world power, and with that power came the responsibility to become "the Good Samaritan of the entire world [with a duty to feed] all the people of the world who…are hungry and destitute."

Luce wanted America to start to fulfill that mission in China. Even more than his beloved magazines, or his countless lovers, China was the true passion of his life ("Oh brave new world…Oh China!" he wrote with characteristic pomposity and enthusiasm). He, his magazines, and his nation were all required, in his cocksure mind, to help the civilized, Christian Chiang Kai-shek and his Nationalists defeat the godless Communists led by the brutish Mao Tse-tung. When the U.S. "lost" China and Chiang retreated to Taiwan in 1949, Luce went ballistic, and he and his magazines became ferocious cold warriors.

Yet the conservative Luce did not fall into lockstep with Joe McCarthy and the right wing of the Republican Party. Although a prominent and virulent critic of the progressive policies of Presidents Franklin Delano Roosevelt and Harry Truman, Luce was nonetheless a Teddy Roosevelt, Wendell Willkie, Dwight D. Eisenhower, and Nixon moderate; he was not isolationist, and he believed in an active role for government. For example, in the 1950s, he and his magazines were in the vanguard in condemning racial segregation in the South and promoting equality across the nation.

Brinkley offers fascinating details about the creation of all Luce's magazines, but *s+b* readers will be most interested in the history of *Fortune,* which he launched on the cusp of the Great Depression. Brinkley says that *Fortune* was Luce's "real love among his magazines" (quoting Peter Drucker), and "among the most elaborately and lavishly designed publications of its time." Luce believed that "business is essentially our civilization," and thus deserved to be celebrated in a magazine staffed by the finest writers, photographers, and graphic designers of the age. Each issue was a work of art, printed on high-quality paper and selling for a dollar at a time when magazines typically sold for a nickel or dime.

Luce had intended for the magazine to reflect his personal philosophy of enlightened corporate social responsibility. But Depression-era deprivations encouraged the magazine's writers and editors to move far beyond Luce's constructive boosterism and to become objective critics of business. In 1934, they were exhorting businesses to pay their employees living wages offering at least "a minimum standard of decency" for them and their families.

For nearly 30 years, the staff produced a truly outstanding magazine; in my view, the old *Fortune* was the finest popular magazine ever produced in this country.

Its first generation of writers and editors in the 1930s included such literary luminaries as James Agee, Archibald MacLeish, and Dwight Macdonald, to be succeeded in the 1950s by the likes of John Kenneth Galbraith, William H. Whyte, Daniel Bell, and Alvin Toffler (all of whom would move on to fame in other arenas). The magazine was the first to offer scientific public-opinion polls, the first to feature photographs as works of art (Margaret Bourke-White and Walker Evans were on staff), and the first to incorporate fine art to illustrate texts (Charles Sheeler's paintings of factories).

Brinkley's account of the launching, marketing, and financing of Luce's magazines gives business readers much to chew on. Luce was a fine businessman despite not caring a whit about making money for himself. He was a superb judge of talent, and rewarded his star writers and photographers handsomely. Indeed, he took great care of all Time-Life employees, famously offering the most extravagant expense accounts in journalism. He was, however, an absentee manager, off traveling for months at a time, only to suddenly and arbitrarily intrude on the work of his editors (who for the most part respected him nonetheless, thanks to his insatiable curiosity, creativity, high standards, and generosity).

Many people loved Luce despite — or perhaps because of — his insecurity and emotional vulnerability. He often turned to his employees for the friendship missing in his messy private life. His extremely public second marriage, to prominent playwright and politician Clare Boothe Luce, was a three-decade arrangement made in Hades between two "intensely self-centered and exceptionally ambitious" people who didn't sleep with each other, but chose to remain together to enhance their respective careers. Because Henry and Clare shared an addiction to pouring their souls out in long letters to just about anyone, Brinkley is able to document even the most embarrassing details of their complex and often unattractive personalities.

The worst thing that can be said of the unpredictable, volatile, moody, and contradictory Luce was that, much like Rupert Murdoch today, he used the news for his own purposes. He sought the power to shape national and world events, and although he was seldom successful in those efforts, he never gave up trying. But unlike Murdoch, Luce was basically interested in using his power for the public good, and sought to the very end to live a virtuous life that would make his missionary father proud. He didn't always succeed, but every week for four decades, his magazines provided Americans with a common cultural touchstone that did much to bind them together as a nation.

Brinkley argues that Luce and his magazines succeeded because they were reliable reflections of their time, mirroring the values, aspirations, and beliefs of an increasingly affluent middle class. He notes that the magazine empire that Luce built began its long decline (extending to this day) in the 1960s when the American "consensus" was broken and society fractionated as a result of the Vietnam War and the women's and civil rights movements. Today, it is simply impossible for a single publication to speak to the interests of the countless diverse audiences served by dozens of cable channels and millions of websites.

On a personal note: While in graduate school, I worked as an apprentice correspondent for *Time* beginning in 1967, the year Luce passed away. I have never had a better job.

Another's Good Fortune

If the late Peter Drucker was the father of management studies, octogenarian Warren Bennis deserves the same mantle with reference to leadership. In *Still Surprised: A Memoir of a Life in Leadership,* Bennis examines his own life through the same lens he has used successfully over the years to analyze the behavior of business and political leaders.

That lens is what social scientists call *role,* and it adds a useful perspective to this unusual memoir. Bennis notes that biographers typically "look to psychobiography, not role, to explain human behavior," focusing great attention on the family as the crucible in which individual character is formed (as Brinkley successfully does with Luce). However, Bennis argues that "leadership is so often a function, not of one's personality or psychological makeup, but of the role one finds oneself in."

Hence, Bennis dispenses with the expected histories of his parents and childhood and dives straight into 10 lively and focused chapters, each detailing the life and leadership lessons he learned playing various roles, including that of an NCO during World War II (he was awarded the Bronze Star when he was barely old enough to shave), a member of various research teams, a university president, and, later, a mentor, a teacher, and a father.

Throughout the book Bennis reminds us that his "has been a largely charmed life," and he credits his manifest success to the good fortune of finding the right colleagues at critical moments in his career. His first and most significant mentor was the great Douglas McGregor, whose *The Human Side of Enterprise* (McGraw-Hill, 1960) stands as the most influential management book ever written. (See "Theory U and Theory T," by Matthew Stewart, *s+b,* Autumn 2010.) McGregor's insights about Theories X and Y were profound, and subsequent books by such gurus as Peter Drucker, Tom Peters, and Jim Collins can be seen as additions to, or refinements of, that masterful work. Bennis notes that there have been echoes of McGregor in everything he has written over the last 50 years. (Disclosure: Warren Bennis has played a role in my own career similar to that which McGregor played in his).

Thanks to good luck, and McGregor's influence, Bennis found himself in Cambridge, Mass., in the 1950s at exactly the time modern social science was being created at Harvard and MIT by such luminaries as economists Paul Samuelson, Robert Modigliani, and Robert Solow; sociologists David Riesman, Talcott Parsons, and Robert Merton; anthropologists Clyde Kluckhohn and Clifford Geertz; and psychologists Gordon Allport, Abraham Maslow, Erik Erikson, Kurt Lewin, and Erving Goffman, all of whom were Bennis's teachers, friends, and colleagues (he earned his doctorate in economics at MIT). As an aside, I can't help noticing that Lewin died at age 47, McGregor at 58, and Maslow at 62, all at ages when today we expect scholars to be most productive. (Bennis notes that *everyone* smoked then.) Also different then was the relative absence of barriers between disciplines. Most of the individuals listed above knew one another, were familiar with one another's work, and often worked together on research teams. Such experiences led Bennis to a lifetime search for "community," to be a part of "good groups" and imbued with the desire to lead organizations in which the entire cast and crew would be "making the same movie."

> Bennis found himself in Cambridge, Mass., in the 1950s at exactly the time modern social science was being created at Harvard and MIT.

To Bennis, leadership is not a solo act, and certainly not a simple function of individual character; this is why he examines the role of leaders *in the context of their organizations.* Thus, he critically analyzes his own performance as executive vice president of SUNY Buffalo and, later, as president of the University of Cincinnati, in terms of his success at creating the organizational capabilities needed to meet the specific challenges those institutions were facing at the time. Bennis pulls no punches here, objectively analyzing the reasons for both his successes and his failures. With regard to the latter, he cites Alfred North Whitehead's insightful words about meeting the challenges of change: "Every leader, to be effective, must simultaneously adhere to the symbols of change and revision and the symbols of tradition and stability." Bennis then concludes, "We failed to master the culture of Buffalo before we tried to change it." That's a profound lesson Carly Fiorina could have applied profitably at Hewlett-Packard Company, where she failed to respect the depth of employees' commitment to the culture created by the company's founders.

In his landmark book *On Becoming a Leader* (Addison-Wesley, 1989), Bennis showed that one learns to become a leader by reflecting on experience. In the scant 177 pages of his memoir, he captures a lifetime of such reflection, and does so with good humor, often at his own expense. He tells one marvelous story after another; for example, about the time when he was an impoverished graduate student pinching every penny to undergo psychoanalysis (de rigueur in the 1950s for aspiring social scientists). When his mother asked him how much it all cost, Bennis explained he was paying $3 per session five times a week. After doing the math, she replied, "Son, I wish you had taken that money and spent it on yourself." This is one book that I wish had been longer.

Hard Drink and Tough Lessons

The 18th Amendment to the United States Constitution was a stroke of singular national insanity. In 1919, a determined, self-righteous minority succeeded in forcing its extremist values on — and taking the liberty from — a compliant, hopelessly divided majority of their fellow citizens. In order to achieve the ends of the "great experiment" that became known as Prohibition, the federal government intruded further into the private lives of U.S. citizens than ever before in the nation's his-

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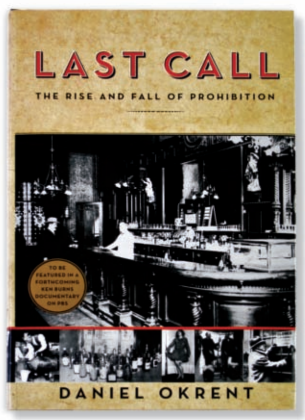
tory: Billions of dollars in private property were taken, in effect, without compensation, the federal income tax was created, and an army of (largely ineffectual) federal agents were loosed to police the behavior of millions of scofflaws and to control the unprecedented increase in organized crime that, perversely, the legislation spawned. In his beautifully told *Last Call: The Rise and Fall of Prohibition,* this year's best book in the biography and history category, distinguished journalist Daniel Okrent seeks to answer the obvious question: *How the hell did it happen*?

Superficially, the answer is simple: Americans (actually, American men) had for a century or more been among the world's leading lushes, and the sober minority (particularly, long-suffering wives and mothers) were willing to resort to desperate measures in order to dry their men out. But that was only half of the story. The "drys" were, in fact, an unacknowledged coalition of "racists, progressives, suffragists, populists" and, especially, white Protestant nativists who saw Prohibition as a way of lashing out at the rising number of immigrants from Ireland, Italy, and eastern Europe for whom drinking was an integral part of the culture. It didn't hurt the nativists' argument that almost all the beer brewers in the United States were immigrant (or first-generation) Germans, and something like half of those involved in the production and sale of hard liquor were Jews. Now, how many causes are there in which both Germans *and* Jews are easy targets — and in which the threat of African-American alcohol-inspired violence can be evoked, to boot? In all, Prohibition was a natural issue for the white, small-town, literalist-Protestant population that was grossly overrepresented in Congress at the turn of the 20th century, and that felt threatened by an increasing tide of "the other."



So there they were, an oddly diverse team of drys composed of the Ku Klux Klan, the Socialist Industrial Workers of the World, Baptist and Methodist puritans, progressives such as Jane Addams and Upton Sinclair, and millionaire businessmen such as John D. Rockefeller and Henry Ford — all united in the unholy cause of denying others a right that had been historically enjoyed throughout all of Christendom. Although members of that group had little in common, they were kept masterfully united by one Wayne Wheeler, a Washington-based lobbyist for the all-powerful Anti-Saloon League (ASL).

Okrent makes the case that Wheeler may have been the most effective lobbyist ever to have stalked the halls of Congress. Although few today have heard of him, he was famous — or, to "wets," infamous — at the time for having almost single-handedly orchestrated the passage of the 18th Amendment and dictated the terms of the Volstead Act (which authorized the federal government to enforce the amendment). Wheeler was nothing if not devoted to Prohibition. He was a one-issue man, and his day and night obsession with his noble cause doubtless contributed to his early death at age 57. For two decades, he held sway over the majority of senators and representatives, supporting the dry ones, punishing the few wets who dared to oppose his cause, and intimidating the majority of those who were wet in their private behavior into either silence or, more commonly, hypocritical support of Prohibition.

In addition to politicians on both sides of the aisle, prominent drys included circus man P.T. Barnum, suffragette Susan B. Anthony, perennial presidential candidate Williams Jennings Bryan, John Harvey Kellogg (of cornflakes fame), and such reformed dipsomaniacs as prizefighter John L. Sullivan and novelist Jack London. Reliably arrayed against that formidable lineup were the editors of most big-city papers, journalist H.L. Mencken, lawyer Clarence Darrow, Democratic presidential nominee Al Smith, and the nondrinking Theodore Roosevelt (who nonetheless called the Prohibitionist movement "egotistical lunacy"). For the better part of the decades-long struggle, these disorganized wets proved no match for the Wheeler-led drys.

In fact, the ultimate repeal of Prohibition had far less to do with wet opposition than with the public's growing perception that the consequences of the act were, in Okrent's words, "hypocrisy, greed, murderous criminality, official corruption." There *was* a positive side: a decrease in consumption of alcohol, particularly among the less well-to-do and small-town residents. But drinking actually increased in most big cities, mainly among the more affluent and, particularly, among middle-class women. Prior to the enactment of Prohibition, women did not drink in bars, and most did not even imbibe at home with friends and family. But making liquor illicit made it fashionable for the ladies to match their gentlemen shot for shot, glass for glass, and we can thank Prohibition for such cultural innovations as coed cocktail parties and "powder rooms" in saloons. By the end of the era, there were some 32,000 illegal hooch joints in New York City alone, almost all of them openly selling the stuff, and alcohol abuse had become as much of a problem for women as for men.

Perversely, by 1926 total sales of bootleg booze exceeded the entire dollar amount of the U.S. federal budget. For the Prohibition era as a whole, U.S. brewers and distillers actually ended up making money, most vintners survived, and a number of industries thrived — including the physicians who legally prescribed "medicinal Jack Daniels," the "drugstores" that fulfilled those prescriptions (Walgreen Company grew from 20 to 525 stores during the era), and especially the speakeasies and distributors (aka bootleggers) that purveyed illegal stuff. Canadian distillers and the federal treasury in Ottawa were the happy beneficiaries of alcohol sales banned south of the border. The losers were the U.S. government and taxpayers. Prior to Prohibition, taxes on the bottle had amounted to 30 percent of all federal revenue.

Observing such goings-on with horror from across the Pond, Winston Churchill called Prohibition "an affront to the whole history of mankind" that was "at once comic and pathetic." Okrent documents both of those elements evenhandedly but with the wry — I inadvertently typed *rye*! — touch of humor the subject calls for. What can one say with a straight face about the Christian Socialist Frances Willard, head of the Women's Christian Temperance Union (WCTU), whose agenda included government ownership of industry (and theaters!), vegetarianism, cremation, and "alcohol-free, tobacco-free, lust-free marriages"? She must have been a barrel of laughs, but all we can do today is shake our heads at the risible, misguided surety and sincerity of her many pet causes.

But we can learn from the examples of the powerful WCTU and ASL movements just why and how today's NRA, Tea Party, PETA, and other radical special-interest groups thrive in the United States and exert influence far beyond what their numbers seem to merit. Okrent documents how the ASL, although able to deliver only a small percentage of votes at the polls, consistently leveraged its position by tipping close elections in favor of candidates who toed its line.

Ultimately, however, the Prohibitionists' successes depended on the predictable cravenness of Democratic Party and corporate leaders who were willing to go along with the movement rather than risk having their own ox gored by its mad bulls. America's business leaders went into hiding when the Prohibitionists sought to destroy the nation's fifth-largest industry, and such leading Democrats as then New York governor Franklin Roosevelt (a nonreligious, two-martini man himself) embraced Bible-thumping teetotalers as if they were soul mates. Much as is the case today, educated business leaders and sophisticated members of the nation's ruling class entered, willy-nilly, into political alliance with undereducated populists and religious fundamentalists who had interests antithetical to their own.

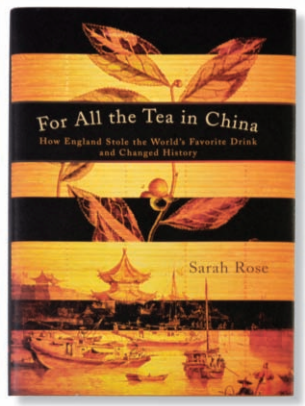
Finally, in the late 1920s, two business heroes stepped forward to do battle with the forces of darkness. Pierre DuPont and John J. Raskob worked with the Association Against the Prohibition Amendment (AAPS) to take on the ASL. Students of business history will recall that they were the same powerful duo who led both the giant DuPont company and General Motors (the latter along with Alfred Sloan) during the 1920s. DuPont and Raskob recruited other top corporate leaders to the AAPS and worked side by side with society matron Pauline Morton Sabin (a Morton salt heiress) to outspend and outflank Wheeler and the ASL — even going so far as supporting Democratic presidential candidate Franklin Roosevelt (who eventually found the courage to lead the fight for repeal). And FDR's election in 1932 was the end of the game: Prohibition died quickly and with nary a whimper the following year.

The end of Prohibition didn't finish the AAPS. It turned out that the organization really hadn't been all that concerned about gaining legal access to alcohol. (The rich never had supply troubles during Prohibition: In 1928, the bibulous Raskob ran up one liquor tab of US$1,651 — more than $21,000 today, adjusted for inflation). Instead, the most important item on the business leaders' agenda actually was repeal of the 16th Amendment, which established the income tax. DuPont and Raskob reasoned that if the main argument for introducing income tax had been to generate revenue lost as the result of Prohibition, then there would be no need to continue to tax income once the feds got back into the business of collecting on bottles. It was a clever argument, but when their candidate became president, and FDR began to spend all the revenue from both income and liquor taxes on New Deal programs, the infuriated business leaders began to oppose him more vigorously than they had opposed the Anti-Saloon League. Roosevelt then became "that Socialist in the White House." Sound familiar?

A Lighter Brew

Sarah Rose's *For All the Tea in China: How England Stole the World's Favorite Drink and Changed History* is a breezy account of an enterprising Scottish botanist's daring act of industrial espionage in 19th-century China.

The story begins with the opium trade. For some 200 years, the "Honourable" East India Company had sold Indian opium to China and bought Chinese tea for England with the proceeds, making a handsome profit in the process. According to journalist Rose, the opium trade turned nearly a third of all Chinese adults into addicts. The Chinese authorities understandably wanted to get that monkey off their back. They also wanted to reverse an increasingly unfavorable balance of trade that was transferring much of China's wealth to Britain. So they tried to free themselves from this undesirable arrangement by removing Western traders from their country by force in the First Opium War (1839–42). When they failed, the victorious Brits claimed even more territory and rights in China.



In the wake of those disastrous consequences for China, the East India Company's directors in London began to fear that the humiliated Chinese would start to grow their own opium poppies and thus imperil their income. And since something like 10 percent of British tax revenues were derived from the sale and import of tea, what was good for the East India Company was seen as good for Her Majesty's government as well. Hence, caution was thrown to the wind and an all-out defensive effort was launched to beat the Chinese to the punch by growing tea in British India.

The problem was that China had a virtual monopoly on the technology of tea making, and the only way to transplant that knowledge to India was to steal it. The East India Company's managers thus devised the clever scheme of recruiting Robert Fortune, an impoverished and, as they correctly assumed, foolhardily desperate horticulturist, to travel to China — undercover and alone — to make off with tea seeds, plants, and the intellectual capital required to grow and process them, and deliver all of the above to the Indian hills of Darjeeling (which were reckoned to be ripe for tea plantations).

As one can imagine, Fortune's task was not easy to accomplish in a China closed to foreigners, with thousands of muddy miles to cross, high mountains to climb, nasty brigands to battle, and scheming servants hell-bent on exploiting a master who was dependent on them for his very survival. It's an old-fashioned adventure-story-cum-travelogue: the incredible journey of a Victorian Marco Polo. But that isn't why *s+b* readers will want to pick up this book.

The book's value lies in its parallels to today's contentious trade relations between China and the West. History is almost repeating itself, although today the shoe is on the other foot. In the 19th century, China ran up a tremendous trade deficit to Britain, much as the United States' balance of payments with China is becoming insupportable now. Britain used the gold it earned in China to expand its naval fleet and enhance its role as the world's superpower, and now China is doing much the same with its export earnings. Today, of course, it is the Chinese who engage in the occasional act of industrial espionage. But they still have a habit of dangerously adulterating products meant for export to the West; then it was a poisonous chemical to enhance the color of green tea, now it is lead in toys. And all of the above was, and still is, complicated by cultural misunderstandings, nationalism, and an unwillingness to compromise on both sides for fear of losing face. History may not repeat itself, but it often gets close enough to warrant that prudent managers sit up and take notice. +

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