HARVARD
Management Update

A NEWSLETTER FROM HARVARD BUSINESS SCHOOL PUBLISHING • SEPTEMBER 2001 • VOLUME 6 • NUMBER 9

How to Ruin a Merger: Five People-Management Pitfalls to Avoid

M&A activity is at a record level. Divisions are forever being consolidated or realigned. Yet firms still overlook the people issues that can make or break a reorganization. There are steps you can take in your own unit, however, to increase a merger's chances of success.

by Kristen B. Donahue

IN AN ECONOMY that places a premium on speed, the quickest way to add products, channels, or customers often is to acquire rather than to build internally. Not surprisingly, worldwide merger and acquisition activity hit an all-time high last year, with the 9,500 deals announced totaling nearly $3.5 trillion. But most unions fail to add shareholder value—indeed, post-merger, two-thirds of the newly formed companies perform well below the industry average. And it's the same story at the departmental level: all too often, the productivity improvements envisioned by the realignment never materialize.

Faulty strategy and economic forces are regularly blamed for this dismal performance, but if you trace the causes back to their roots, you'll find that people issues often figure prominently in the failure of a reorganization. Unfocused leadership, internecine politicking, poor communication, the loss of key employees, and culture clash: such problems can turn a great opportunity into a millstone.

It doesn't have to be that way. Witness last year's merger between the pharmaceutical company Pharmacia & Upjohn (itself the result of a 1997 merger of the Swiss firm Pharmacia AB *(continued on page 2)*

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60 HARVARD WAY, BOSTON MA 02163

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$99/yr. (12 issues) in the United States. US $169/yr. in Canada and Mexico. US $189/yr. outside of North America. Single copy: $10.95 Domestic First Class mail (includes Canada, Mexico); Airmail: add US $20. For group subscription rates, call 800-795-5200.

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Harvard Management Update (ISSN 1525-9595) is published monthly by Harvard Business School Publishing Corp., at 60 Harvard Way, Boston MA 02163. Periodical postage paid at Boston MA 02163, and at additional mailing offices (USPS 17-848). POSTMASTER: Send address changes to Harvard Management Update, Subscriber Service Center, P.O. Box 257, Shrub Oak NY 10588-0257. To resolve subscription service problems, please call 800-668-6705. Outside the U.S., call 617-783-7474.

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and the U.S. firm Upjohn) and chemical heavyweight Monsanto. The strategy was sound enough: create a new company, called Pharmacia Corporation, that would have a larger platform for growth in the prescription and consumer drug markets. Soon after the merger, however, nationalism, radical culture clashes, and a silo approach to product development all threatened to undermine Pharmacia's ability to keep its pipeline full of blockbuster products. But by aggressively addressing the concerns that made people worry about their job security and the content of their jobs, CEO Fred Hassan and his management team enabled employees to focus on the business issues.

With the U.S. economy experiencing its slowest growth rate in eight years, the pressure on companies' M&A activity to live up to expectations is huge. How can you prevent people issues from causing these revenue-generating ventures to backfire? Keep a watchful eye out for the following workforce-related stumbling blocks.

1 Unfocused leadership. Many change efforts—M&As in particular—fall victim to politics, write Timothy J. Galpin and Mark Herndon, consultants in Watson Wyatt's M&A practice, in *The Complete Guide to Mergers and Acquisitions.* "When people see top managers merely jockeying for political position in the new company, putting little or no focus on the business, its customers, or its employees, the seeds of a failed integration are sown. Ensuring that someone is in charge of the integration…can mitigate the politics and create a 'back to business' attitude."

GE Capital and Johnson & Johnson are two companies that have created the position of integration manager for handling acquisitions, note Ronald N. Ashkenas and Suzanne C. Francis in "Integration Managers: Special Leaders for Special Times," an article included in the recent anthology *Harvard Business Review on Mergers and Acquisitions.* Functioning as supercharged project directors, the best integration managers draw on deep knowledge of the acquiring company to ensure that the process works swiftly and smoothly. They have "room to maneuver where others, more fixed in their roles in both companies, do not," write Ashkenas and Francis. "By shuttling freely up and down the organizational hierarchy, in and out of different departments and companies, and across different locations, they can make things happen that would not have happened otherwise."

The idea of integration management as a special, full-time assignment is still somewhat novel. In most companies, the task of integrating the two organizations falls to task forces in departments and divisions throughout the acquiring company; members take on this work in addition to their other responsibilities. If you're assigned to one of these task forces, concentrate on four strategies: injecting speed into the overall integration process, launching short-term projects that bring employees from both companies together to create business synergies, making social connections between the two organizations, and creating flexible integration frameworks *(see "Integration Strategies," p. 3).*

2 Leaving stakeholders in the dark. The delicate nature of deal making makes it difficult to communicate with a merging organization's stakeholders. What's more, the uncertainty surrounding the future of the merged companies can be hard for employees to handle. In "Lessons from Master Acquirers," a CEO roundtable discussion in the *Harvard Business Review* anthology, Dennis Kozlowski, chairman and CEO of Tyco (headquartered in Bermuda but run out of Exeter, N.H.), cites the following statistic: "People are normally productive for about 5.7 hours in an eight-hour business day. But any time a change of control takes place, their productivity falls to less than an hour."

"Before people become curious about combined market share or start thinking about the integration of databases," write Galpin and Herndon, "they consider the personal impacts. Will I lose

my job? Will my pay be affected? To whom will I report? Will I have to move?…Managers and employees keep asking these questions until they get answers, and the time that the workforce spends worrying about these questions is time that is not being spent on the business."

M&A deals are bound by strict confidentiality agreements, so it's likely that you won't be able to tell employees everything they want to know. When that's the case, the best solution is to be up-front, advises Helen L. Nelling, director of rewards at Solutia, an applied chemistry company based in St. Louis, Mo., that has numerous acquisitions under its belt. "Tell your employees everything that you can," she says. For the rest, "admit that you can't tell them now, and then let them know when you'll be able to tell them." Even if you don't have answers to all the questions about changes that will affect employees' careers—reporting relationships, key roles, layoffs, and restructuring—try to explain "the process that will determine the new management structure," says Mackey McDonald, chairman and CEO of VF Corporation (Greensboro, N.C.) in "Lessons from Master Acquirers." If you can "show how that's going to work, it does relieve some of the concerns."

3 Failure to develop a plan for retaining key employees. Companies are most vulnerable to talent poaching during the period immediately following a merger announcement. Competitors will waste little time approaching your best people, hoping to leverage their uncertainty about their own company's future to lure them away. To protect your company, identify "the critical people for getting the deal closed, integrated, and for ensuring the survival of your business," says Neil B. Krupp, national practice leader for IHR Consulting at Deloitte & Touche in Chicago. Make sure you look deep into the organization; mid-level and line managers play a vital role in this identification and selection process. "The key person may be an accounting clerk in your Tucson branch who has knowledge and information that no one else has," says Krupp.

A successful retention strategy during a merger should include both financial remuneration and assurances about the future. A Deloitte & Touche survey of post-merger senior executives reveals that 50% of respondents believe M&A retention schemes should last 12 months. "A basic rule of thumb is to offer your key people a bonus of half their salary to stick around for one year," says Krupp. A "stay bonus" should be tied to a performance measure or some kind of deliverable, add Galpin and Herndon; otherwise people may be tempted to "sit and wait out the period of the bonus while offering no real productivity." But remember, money is only part of the equation. During a merger, people are looking for assurance that they will continue to be part of the company and that they have an important role to play in the future of the new organization.

At the same time, make sure you aren't overlooking any sources of discord within your ranks. Bob Miller, a San Francisco–based principal at William M. Mercer, suggests assessing employees of both the acquired and the acquiring companies on their willingness to work in the new, merged environment and then "de-select the people who are likely to derail the deal." Spell out the competencies required in the newly merged company. Make sure the appraisal process is transparent and fair, taking "the bias and emotion out of the selection," advises David Kidd, a partner at Egon Zehnder in Chicago, in "Who Goes? Who Stays?" (a *Harvard Business Review* case study). In the same case study, Grant Freeland, a Boston-based vice president at the Boston Consulting Group, says that the selection "should be done in waves: the first level appointed should help select the second level, and so on."

4 Losing your external focus. It's common for organizations to experience a dip in sales and an increase in the number of customer complaints in the post-deal period. "When sales and service suffer, people in these groups tend to blame the merger, and they immediately question the viability of the combination," write Galpin and Herndon. Likewise, customers may worry that the company will be too focused on the work of combining businesses to pay attention to their needs. "Have your sales force take the time to figure out who's at risk and go after them," says Miller, recommending measures such as special sales incentives and an advertising and *(continued on page 4)*

Integration Strategies

Four key tasks can help you combine the work of addressing employees' concerns about the future with the actual merging of units, functions, processes, product lines, and distribution channels, note Ronald N. Ashkenas and Suzanne C. Francis in "Integration Managers," an article in *Harvard Business Review on Mergers and Acquisitions.*

Injecting speed into the process
- Ramp up planning efforts
- Accelerate implementation
- Push for decisions and actions

Making social connections
- Act as a traveling ambassador between locations and businesses
- Allow employees to vent
- Interpret both firms' cultures

Engineering success
- Identify critical business synergies
- Launch 100-day projects to achieve bottom-line results

Creating structure
- Provide flexible integration frameworks
- Mobilize joint teams
- Facilitate team and executive reviews

customer-service communication plan that emphasizes the company's continuing commitment.

5 Ignoring—or avoiding—the cultural issues. Even if the rationale for a merger is sound, cultural differences can enervate the union. Cultural differences comprise more than different geography, language, and custom. They also include divergent attitudes toward work. "Let's say you're not making your budgets because the selling prices of your products are falling," says Bill Avery in the roundtable discussion "Lessons from Master Acquirers." In the U.S., says Avery, former CEO of the consumer-goods packager Crown Cork & Seal (Philadelphia), "we'd think, 'Well, if prices are going down, we've got to cut costs.' But in Europe, some managers may be inclined to say, 'Well, prices are falling now, but in a couple of years, they'll go back up.'"

When two businesses are combined, there are four possible approaches to culture: maintain two distinct cultures, apply all policies from the acquiring company to the acquired company (or vice versa), mix and match policies from both firms, or create an entirely new culture. The choice depends on the nature of both the deal and the firms. (In some instances, you won't be able to achieve a high degree of integration, no matter how hard you try.) But regardless of the approach, forthrightness and clear communication are the keys.

If you intend to fold the company you're acquiring into your existing organization, resist the temptation to characterize it as a merger of equals. This will only breed confusion, resentment, and mistrust on the part of the acquired company. GE Capital has implemented "a systematic process of cross-cultural analysis, leading up to a structured three-day 'cultural workout' session between GE Capital and the newly acquired management team," write Ashkenas, Francis, and Lawrence J. DeMonaco in "Making the Deal Real: How GE Capital Integrates Acquisitions" (also in the *Harvard Business Review* anthology). Participants discuss the implications their respective cultures have for doing business—"for instance, how to go to market, how much to focus on cost, or how concepts of authority differ." The result is a blueprint for where management wants to take the new company.

Unless you intend to drop a neutron bomb on the company you're acquiring, plan on putting in a lot of hard work to get everyone in the merged organization working toward the same goals. The same need for speed that leads so many companies to engage in M&A activity also demands that the integration be carried out as swiftly as possible. But a let's-get-this-over-with mentality can be counterproductive; it gives rise to the belief that integration is a discrete phase of M&A activity that begins after the documents are signed. Integration works best when you start thinking about the people issues during the due-diligence phase of merger negotiations and continue to pay attention to them in the ongoing management of the new enterprise.

Senior management bears the responsibility for getting the HR department involved in the merger negotiations as early as possible (and earlier than has traditionally been the case). Once the deal has been closed, people in all managerial levels can play a role in helping the organization address the people issues with dispatch. The sooner you get employees comfortable with the changes, the sooner you can start integrating basic work processes and functions—and the sooner the organization will be able to return to a focus on customers and markets. ❖

It Pays to Get HR Involved Early On

A recent post-merger study of senior executives by Deloitte & Touche shows unanimous agreement about the importance of involving the human resources department in pre-merger discussions and due diligence. Speed and accuracy are critical to a successful merger. HR can speed up the process by working on future staffing, elimination of redundancies, and compensation and severance packages while merger negotiations are still going on.

In many organizations, however, HR is not consulted on M&A issues until well after completion of the due-diligence phase. Historical bias is often to blame, note Timothy J. Galpin and Mark Herndon in *The Complete Guide to Mergers and Acquisitions.* "In many organizations, this pattern of leaving HR out until it is too late is unlikely to change much until HR can demonstrate that it understands M&A transactions and what the business needs at various stages of the deal process," they write.

At the same time, senior management needs to realize that HR issues can make or break a merger. "The people issues of an M&A are usually considered last," says Neil B. Krupp, national practice leader for IHR Consulting at Deloitte & Touche. "But particularly in industries where people are the key source of competitive advantage, these issues need to be considered right up front."

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RESOURCES

The Complete Guide to Mergers and Acquisitions: Process Tools to Support M&A Integration at Every Level
by Timothy J. Galpin and Mark Herndon
2000 • Jossey-Bass

Harvard Business Review on Mergers and Acquisitions
2001 • Harvard Business School Press

Reprint # U0109A

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A Quick-Hit Approach to Cost Savings

Do you fear that layoffs are in your company's near future? Try eliminating unproductive practices and procedures first.

by James Powers and Michael Connor

"We have to dump the work that doesn't contribute directly to product quality, customer satisfaction, employee benefit, and shareholder value," said General Electric's chairman Jack Welch when he launched the company's Work-Out program in 1988. "We have to shed the work that works against us." Welch's insight is particularly relevant today. Trying to find a way out of the current economic doldrums, companies are emphasizing the need to be more productive. And yet organizational clutter still abounds. Loose ends remain from prior initiatives that were never brought to full closure, and duplication is rife.

A quick-hit cost program can have an immediate impact on spend rates simply by identifying and eliminating the practices and procedures that waste money. Sometimes the cost savings are obvious. For instance: spike the report that no one reads, get rid of the checks and balances that add no assurance or security, and put a halt to momentum spending—outlays that continue long after their rationale has vanished. Other examples of quick-hit cost savings, drawn from our work, include a retailer that saved $400,000 by halving the number of physical inventory counts taken each week; a "superstore" retailer that saved $440,000 by slightly upping the discretionary expenditures a store manager could approve; and a financial organization that saved $100,000 by simply clarifying who within the company received invoices.

None of these examples involve reducing the head count or making significant investments of cash and capital. In fact, most quick-hit savings result from simply stopping work that makes no sense. One such program identified 50 potential cost savings; eliminating tasks accounted for 78% of the total savings.

Where do you find quick-hit savings? A description of three proven forums, with examples of their utility, follows.

1 Bureaucracy busters. These bimonthly meetings of cross-functional managers focus on finding and rooting out unnecessary procedures, forms, and layers of oversight in all operating functions. Meeting participants identify the studies, reports, analyses, investigations, and approvals that have become routine and repetitive—and summarily stop them. Nothing is taboo. Bureaucracy-busting meetings at one airline killed a monthly 300-page report when it was discovered that the same information was readily available elsewhere.

2 Work-Out sessions. At GE and other companies, these facilitated meetings, lasting several days, enable frontline personnel to (1) identify improvements in productivity, efficiency, and effectiveness, (2) develop action plans, and (3) gain senior-level commitment to improvement on the spot. Work-Out sessions deliver quick and clean outcomes to the committed organization, but they're not for the faint of heart. If you're not willing to act quickly, don't waste your time on them. One manufacturer used Work-Out sessions to reduce the number of signatures needed for an authorization request from 19 to 6, halving the time and cost of the entire authorization process.

3 Delta task forces. These initiatives are typically commissioned by senior management and make use of cross-functional teams and external support to systematically review and streamline procedures that develop following the introduction of new technologies and business processes. Participants are often rewarded with bonuses that reflect some portion of the savings realized from their efforts. After installing ERP software, one finance department identified five quick hits that together delivered $940,000 worth of immediate cash savings. Four of the hits resulted from simple changes to standard operating procedures.

For maximum benefit, a quick-hit program requires five key organizational and individual ingredients:

- **SUPPORT AND LICENSE** from senior executives,
- **INCENTIVES** for involvement and participation,
- **A SHORT TIME FRAME** for analysis and action,
- **THE PREDISPOSITION** on the part of managers to listen first and then act, and
- **THE WILLINGNESS AND ABILITY TO STEP BACK** from day-to-day operations and reflect on how your business *should* operate.

When times are good, a quick hit is a lot like a quarter lying in the street—most people won't stop to pick it up. It's only when conditions sour that the quarter shines brightest. Properly planned and executed, a quick-hit program will produce savings that far exceed the initiative's costs. Just as important, quick hits give employees the opportunity to help cuts costs, not heads. With layoffs at their highest levels in a decade, that boost to morale alone makes quick hits a smart choice right now. ❖

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Reprint # U0109B

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The 10 Commandments of Low-Cost Trendspotting

How to scour the horizon for opportunities when you're tight on time and money

by Kirsten D. Sandberg

THE DOT-COM bubble may have burst, and the economy slowed down, but the future continues to rush at us full force—with threats that can overwhelm or opportunities that might deliver The Next Big Thing. Now's not the time to cut back on trendspotting, the discipline of articulating what your customers need.

Consider this: in 1934, Parker Brothers rejected a board game because of its flawed design. Undaunted by this rejection, and unemployed like so many others during the Depression, Charles B. Darrow went ahead and produced 5,000 sets of the game he'd created—Monopoly—and sold them through a Philadelphia department store. The game was a huge hit, transforming down-on-their-luck players into real-estate tycoons. In a time of great upheaval, with no clear rules for success and no level playing field, Monopoly filled a real need, one that Parker Brothers initially missed.

Will you recognize your Monopoly—an opportunity with both immediate payoff and dividends over time—when it comes knocking? Not if your company lacks a forward-looking mindset and an infrastructure for scouring the horizon. Trendspotting is a prerequisite to practically all forms of forecasting and strategic planning. When time is scarce and budgets are tight, here are some economical ways to keep your organization's eye on the future.

1 "Take a neuroscientist to lunch," writes Rohit Deshpandé, Sebastian S. Kresge professor of marketing at Harvard Business School, in "'Foreseeing' Marketing" (*Journal of Marketing,* special issue, 1999). "Folklore, poetry, sociobiology, and theater are all fields that can provide new ways to understand how markets develop, how consumers experience retail settings, and how the Internet stitches together communities of customers." Such an interdisciplinary approach, adds Ian Pearson, the resident futurologist at British Telecommunications (BT) in Ipswich, England, helps prevent you from making a bad forecast because of professional or functional blind spots. "I'm always amazed when people predict things that obviously would never catch on, like everyone traveling to work in hovercraft or helicopters," he says. "They don't take account of the logistics, and so they get it wrong."

2 Tap into your community. "When the economy sputters, clients look to the law firm to keep abreast of trends," says Barry D. Burgdorf, partner in the Austin law offices of Vinson & Elkins. That's why Vinson & Elkins recently hosted its first trendspotting conference for nearby clientele. It invited analysts who covered local industries (computers, software, semiconductors, telecommunications) to put a down-home spin on a mishmash of phenomena. Local visionaries like Gary Chapman, director of The 21st Century Project at the University of Texas, provided a community-based context for the broader issues discussed. The conference opened a dialogue on the future among the region's business leaders, who left with a shared set of concerns. For example: if the PC is on its way out, then does the Austin economy have a migration path to new platforms such as wireless?

3 Organize to integrate knowledge, not isolate it. Burgdorf describes Vinson & Elkins's organization as a matrix of *functional* expertise—corporate securities law, contract law, antitrust law—and *practice* expertise in sectors like bioscience, energy, and aerospace. Since "trends occur in industries," he says, all lawyers meet regularly with the others in their practice area to compare notes. As a result, "the best business developments occur in the practice groups." If you've no formal structure for cross-pollinating ideas, then move your office closer to thinkers in very different parts of the business whom you'd otherwise rarely encounter. Hold routine department meetings in rooms located in other parts of the building.

4 Choose forward-thinking partners and customers. Joseph C. Dilg, partner in the Houston headquarters of Vinson & Elkins, looks for repeat business that's by no means repetitive. He relishes assignments from clients that continually seek creative solutions to nonroutine problems. One such example is Houston-based Enron Corp., which began as a natural gas pipeline company but has honed its commodity-trading expertise and expanded its delivery platform so that it can now offer broadband services and entertainment-on-demand. Working with forward-thinking clients, says Dilg, helps his group expand its knowledge base.

Mark V. Hughes, sector vice president of Science Applications International Corporation (SAIC), a technology company based in McLean, Va., agrees. SAIC maintains affiliations with researchers in the science and engineering programs of more than 100 universities; nearly half of SAIC's business involves the U.S. government, one of the nation's largest investors in technology research and development. Broad exposure to the latest discoveries—including those in biotechnology, nuclear science, and chemistry—and familiarity with policy analysis enable SAIC to see consensus forming around the most viable opportunities, and so decide what to pursue and when to launch.

5 Develop a shared framework to sort the trends from the trendy. "People are often too distracted by noise, the

media, and their own work to look for signs of the basic underlying trends that drive big change in modern society, in our institutions," observes professor William E. Halal, developer of the George Washington University Forecast of Technology and Strategy, a knowledge-creating system in Washington, D.C. To distinguish a real trend from something that's just trendy, he says, you need a "guiding conceptual framework." Joan Magretta's *Managing in the New Economy* (Harvard Business School Press, 1999) works well for his class, says Halal, because its discussion of three long-term forces—the rise of networks, the growth of knowledge work, and the globalization of trade—provides a "coherent approach" to thinking about the future.

6 Form a posse on the future. "Create a small scanning function comprising people with credibility throughout the organization," who can commit to scanning certain print and electronic information sources regularly for clues about the future, Halal advises. This group should take some time up front to identify what it should track, divide up the responsibility for tracking, and then agree on what constitutes news "of salient importance." Once they do that, members can "cull the most strategic facts and meet periodically to consolidate, consider, and frame these findings into key trends." The posse should be integrated into your company's knowledge management function so that its efforts sensitize the organization as a whole and translate into new products, services, or other capabilities.

7 Diversify your teams, not just your workforce in general. Organizations usually think of diversity only when hiring new employees, and so they tend to diversify the workforce as a whole—that is, in terms of gender, age, and race. But that's not enough, says Edie Weiner, president of Weiner, Edrich, Brown, a trend-analysis and consulting firm in New York City. Companies must leverage not just *what* employees think—their belief systems, their worldviews, their special interests—but also *how* they think—their distinct cognitive processes. For instance, the left hemisphere of the brain deals with language; the right, with visual and spatial relationships. Studies have shown that to solve certain types of problems, men use only the front part of the left side of the brain, whereas women appear to use both sides, thereby benefitting from a fuller range of interpretations and possible solutions to the problem. Unfortunately, managers often forget these vital differences when staffing teams and end up assigning projects to the usual cast of characters. This lack of diversity only exacerbates group-think. The result: teams often miss emerging trends and avoid any substantive debate over the most important themes.

8 Get off the beaten path. Once inside an organization, employees tend to gravitate toward the same professional publications and the same experiences day in and day out. Consequently, managers must advocate a diversity of action as well as a diversity of thought. "Read outside your area of expertise, outside your comfort level," advises Weiner. "Explore alternative lifestyles, points of view, political leanings, and new areas of need" beyond your immediate community. Pick up a magazine aimed at the opposite sex. Listen to a different radio station on the drive to work. Attend a girls' soccer game. Surf Web sites for kids.

9 Beware traditional research. Alvin Toffler, the author of the best-seller *Future Shock,* once confessed in an interview to reading "with a degree of skepticism" the results of mathematical models designed to help us anticipate the future, because those who apply them "totally ignored non-economic realities, the social, political, cultural, and religious realities." Likewise, managers rely too heavily on competitive and market analysis when looking for trends. Says Weiner: "The convergence of technologies, information, and infrastructures renders conventional methods obsolete because they don't tell the whole story." For example, she says, the latest U.S. Census missed the "multinational household," an emerging type of home in which the primary wage earner is supporting family members in other parts of the world.

10 Watch the games people play, and the people watching games. The Monopoly story illustrates how games can reveal the Zeitgeist by providing relief—albeit temporary and fanciful—from the deep-seated problems of the day. Pay attention to new and popular games, including game shows, online contests, and sporting events. Ask yourself, *Who's playing and why? What's the object of the game? What are the rules? What new roles do people get to play? What do they gain by watching? Can our company address these needs in some more durable way?*

Entrepreneurs succeed not because of beginner's luck but because they have an unimpeded view of the future. If you depend solely on data from your own customer base or industry, you'll miss opportunities to serve profitable consumers outside your circle—and blind yourself to threats from other sectors. But remember: anyone can spout off about the future, and those who shout the loudest often get the most attention, whether their ideas are well founded or not. Trendspotters need a healthy dose of skepticism and a regular reminder that information gathering is not enough. After all, if information were power, then librarians would rule the world. It's your ability to act quickly upon what you learn that matters most. ❖

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RESOURCES

"Scenario Planning Reconsidered"
Harvard Management Update • September 2000
Reprint # U0009B

Reprint # U0109C

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Leadership and Learning: The Art of Asking Questions

Questions that illuminate and inspire can make all the difference in a knowledge economy. Here's some advice about how to frame them more productively.

by Jennifer McFarland

THE MOST effective questions foster a culture of learning. Instead of producing anxiety about not knowing, they create an excitement about learning that translates into breakthrough performance. "Leaders recognize that questions are a positive destructive force. Taking something apart, starting over, can be a powerful source of innovation," writes journalist Andrew Finlayson in his book, *Questions That Work.*

A zeal for learning is what makes Trilogy University (TU) stand out. In month two of the Austin, Tex.–based software company's three-month-long corporate boot camp, the newest hires—most of them 22-year-olds fresh out of college—band together in groups of three to five to invent the future. Since 1995, the 15% of the student projects that have passed the boot-camp trials have brought in $25 million in revenue, forming the basis for $100 million in new business. CEO Joe Liemandt designed TU as a learning exercise, explains Noel M. Tichy in a recent *Harvard Business Review* article ("No Ordinary Boot Camp," April 2001). Liemandt now considers it his most significant source for strategic innovation.

TU is more than a training program. "It transforms the TUers, it transforms Liemandt and other Trilogy leaders, and, ultimately, it transforms the company," Tichy quotes one company executive as saying. At the heart of the transformation is the back-and-forth between the leaders and the rank-and-file employees: leaders are learning from recruits, and recruits are learning from leaders. Such a reciprocal flow of information requires leaders who have mastered the art of asking questions. Before any gains can be realized, managers need to help workers suspend, at least for a while, their assumptions about what is and isn't possible. Executive coach Madeleine Homan attempts to do just that, Finlayson continues, when she uses the following questions to spur creativity:

- **IF YOU COULD** wave a magic wand and have this project turn out exactly as planned, how would it look?
- **IF YOU COULD** have three wishes granted—all work-related—what would they be?
- **IF MONEY WERE** no object, how would you proceed?

Stories can highlight an organization's distinctive strengths in a way that reports and analyses never can, argue Jane Watkins and Bernard J. Mohr in *Appreciative Inquiry.* Ask questions that elicit such stories from employees. For example, *Tell me about a time when the company was functioning at its best. What do you remember from those days? What was going on?*

Of course, once the ideas are flowing freely and the most promising ones have been identified, managers must work to remove the obstacles that prevent the great ideas from coming to fruition—there's no getting around this arduous task. Nevertheless, the whole process of changing the status quo is set in motion by the skillfully framed question. "Great leaders plant seeds of change around them with their questions, cultivate these seeds with constant inquiry, and harvest the results by asking whether the change is working," writes Finlayson. "Leaders know organizations must continually make small improvements to maintain and grow their market positions. They do so by sending pulses of questions throughout the organization that can raise the alarm and warn the organization over and over to be prepared for sudden and permanent change." Reverse psychology can be useful here. Finlayson lists questions that John Seely Brown, former director of Xerox's Palo Alto Research Center, uses to get employees thinking about the risks of *not* changing:

To the Point: How to Sharpen Your Ability to Ask Questions

Focus on the following seven elements, advises Andrew Finlayson, author of *Questions That Work*:

AWARENESS: What are the most important things you need to know? Are you looking for feelings or facts? And how much information are *you* willing to share?

ABILITY: make sure you're asking a person who has the expertise and authority to answer your questions.

ATMOSPHERE: give careful consideration to when and where you ask your questions.

ATTITUDE: tailor the phrasing of your questions to the respondent's personality—then really listen to the answers you receive.

ANSWER: Are the responses you've received verifiable? Did all your questions get answered?

APPRECIATION: Even if the answers you receive don't meet your needs, demonstrate your gratitude anyway. Such appreciation can encourage others (especially shy people) to be more forthcoming. Moreover, be sure to explain your questions in a way that gives people a reason to help you in the future.

ACTION: make sure your questions have real-world consequences.

- **What strategic** surprises do you expect to launch against your competitors this year?
- **What surprises** might your competitors launch against you?
- **How might** your biggest strength be used against you?
- **What happens** when you take any trend to the extreme—for example, when bandwidth becomes infinite?
- **How would** your teenager look at what you're proposing?

Even if you work in a culture that instills in people a fear of appearing unintelligent, makes no distinction between genuine inquiry and interrogation, or rarely challenges accepted procedures, you can learn to ask more productive questions. Take the following elements into consideration, Finlayson advises: awareness of what's most important to know, the ability or expertise of the person you're asking, the conditions that will foster an uninhibited conversation, the attitudes of the person you're asking, the quality of the answers you get, gratitude for the other person's help, and the implications for action *(see sidebar, p.8)*. When used thoughtfully, questions become tools for discovery instead of domination, helping you uncover obstacles to change, inspire action, and become better connected to the organization. ❖

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RESOURCES

Appreciative Inquiry: Change at the Speed of Imagination
by Jane Magruder Watkins and Bernard J. Mohr
2001 • John Wiley & Sons

Questions That Work: How to Ask Questions That Will Help You Succeed in Any Business Situation
by Andrew Finlayson
2001 • AMACOM

Reprint # U0109D

For information on ordering reprints, call 800-668-6705 or 617-783-7474.

What Makes Teams Click

Beneath the myths of leadership lie two bedrock truths: corporate performance depends on the success of the entire leadership team, and teamwork is an individual—not a group—skill.

by Loren Gary

The myth of heroic leadership persists in many organizations, note McKinsey consultants Erika Herb, Keith Leslie, and Colin Price—especially during times of transition at the top. "To be sure, a single person can make a difference at times," they write in "Teamwork at the Top." But merely "bringing in a new CEO to reshape an organization will tend to show mixed results." In their analysis of consumer-goods companies, the authors found that total returns to shareholders "were always worse after the arrival of a new CEO. In reality, long-term success depends on the whole leadership team, for it has a broader and deeper reach into the organization than the CEO does, and its performance has a multiplier effect."

Want to read more?
Visit the HMU Web site at
www.hbsp.harvard.edu/hmu/teams

An equally pervasive myth, the three consultants add, "is the idea that seasoned managers slotted into an organizational chart can easily function as a team." A productive team has mastered three dimensions of performance:

- **It has developed** a shared understanding of goals and values.
- **It has honed** the interaction skills that enable it to "go beyond individual expertise to solve complex problems" and to "withstand the scrutiny of the rest of the organization."
- **Team members** are "able to renew themselves—to expand their capabilities in response to change."

These dimensions are interwoven, the authors write: "Enhanced performance in one dimension not only reinforces the improvement in others but also provides for the genuine personal development that builds success."

In *Teamwork Is an Individual Skill,* consultant Christopher M. Avery highlights the relationship between individual effort and group performance. Many teams operate with the implicit belief that since "teamwork is a group experience, individuals can't be responsible for the quality of their team efforts," he writes. A high-performing team is not "some elusive outcome of group dynamics," but rather the result of intentional individual behaviors. *Contractual exchanges* among team members, in which each party gives and receives something of value, can be sustained only if there is an underlying *relational exchange*—that is, if each member feels she is being treated fairly by the others.

The dimensions of team performance may be intricately woven, in other words, but the threads of individual vigilance and initiative are what hold the fabric together. ❖

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RESOURCES

"Teamwork at the Top"
by Erika Herb, Keith Leslie, and Colin Price
McKinsey Quarterly • Second Quarter 2001

Teamwork Is an Individual Skill: Getting Your Work Done When Sharing Responsibility
by Christopher M. Avery
with Meri Aaron Walker
and Erin O'Toole Murphy
2001 • Berrett-Koehler

Reprint # U0109E

For information on ordering reprints, call 800-668-6705 or 617-783-7474.

GUEST COLUMN

Consequences: The Secret to Holding People Accountable

by Lila Booth

Managers often find it difficult to hold employees to their commitments—but struggling companies can't afford for them not to.

HOLDING EMPLOYEES accountable for their actions is one of a manager's most bedeviling tasks. The tendency is either to take the path of least resistance or to be vindictive. When someone doesn't come through on his commitment, we often shrink away from imposing the negative consequences, even if they've been announced well in advance, and end up harboring resentment against the person. When we do apply the negative consequences, it's all too easy to impose them as a means of humiliating the other person instead of improving performance.

Current economic conditions only complicate the situation: with many companies in financial straits, there's little room for slippage. As Owen Farren, chairman and CEO of SL Industries, a Mt. Laurel, N.J.–based technology conglomerate with five division presidents, observes, "In an organization like ours, each president is accountable to the others. If the consequence is a greater stock price, all the businesses are able to grow, but when one company doesn't do well, it lets all the companies down." Simply put, companies are giving a gimlet eye on anything less than total achievement of the objectives you've committed yourself to—the good old college try isn't enough. As Mark Hansen, chairman and CEO of Fleming, a leading procurement and distribution company in Lewisville, Tex., says, "There is often confusion between efforts and results. Giving it your best try doesn't count—producing is what matters."

Precisely because managers find it uncomfortable to hold employees to their commitments—and because struggling companies can't afford for them not to—I've found, in my work as an executive coach, that a framework for building accountability into performance agreements can be extremely valuable. This framework is an iterative process for helping individuals and teams define goals, commit to specific outcomes, monitor performance, and apply the consequences.

Step #1: drafting an agreement. In a written document, the employee and the manager to whom he is accountable lay out the employee's targets and objectives, based on company and unit goals and the abilities of the employee. Spell out the likely positive consequences—for example, financial rewards and coveted job assignments—of excellent performance, and also the negative consequences that would accompany unsatisfactory performance. There should be no surprises.

Step #2: monitoring performance. Make time for regular, outcomes-based discussions of the employee's performance. Such conversations might begin as follows: "As a result of what you did, the impact on your team, on the department, on our customers, and on the company was…" Supply anecdotal evidence wherever you can—the examples you cite will help cement your advice in the employee's mind.

Step #3: applying the consequences. "Accountability is a daily issue," says Scott Schuff, CEO of Schuff Steel in Phoenix. When you've got a written agreement and are having regular conversations about performance, applying the consequences becomes a less anxiety-ridden affair (although imposing negative consequences will never be easy). But don't forget the positive consequences; failure to reward successful performance is just as serious an omission as letting poor performance slide. In fact, overlooking an employee's accomplishments sends the message that what he does doesn't matter. Don't be surprised if his performance falls off as a result.

Step #4: updating performance expectations. Revisions should occur regularly—whenever unit or company goals are reviewed. These updates are not substitutes for the ongoing analysis described in step #2. Rather, they're opportunities for the manager and the employee to reexamine objectives in the light of altered strategies.

This framework for linking consequences to objectives, like most enduring challenges, is simple—deceptively simple. One thing is for certain: to convince your direct reports of the need for accountability, you and your peers must hold yourselves to the same standards. Cultures of corporate accountability thrive when managers at all levels model the desired behavior. The current climate demands nothing less. ❖

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Reprint # U0109F

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The Rage for Order and the Living Organism

Architecture as metaphor for organizational theory

THIS PAST SUMMER New York City played host to exhibitions of the work of two of the 20th century's most celebrated architects: Mies van der Rohe and Frank Gehry. Mies's work epitomized modernism's aesthetic of austere, ordered rationalism; Gehry's emotionally complex designs explode the whole modernist notion of a grid and a cube. But the two retrospectives don't just speak to the aspirations of architecture—they serve as metaphors for the dominant currents in organizational theory over the past century.

At the Whitney Museum of American Art, "Mies in America" gave short shrift to the spare magnificence of such masterpieces as the Seagram Building in Manhattan or the Dominion Centre in Toronto. Instead, it emphasized Mies's quest to perfect what he called universal space. For example, the roof of the S. R. Crown Hall at the Illinois Institute of Technology in Chicago doesn't require internal columns for support, thereby creating unobstructed views and undifferentiated space that can accommodate a wide variety of uses.

"Modern architecture was supposed to remake the world, and Mies was at the center of the revolution," writes *New Yorker* critic Paul Goldberger ("House Proud," July 2, 2001). Mies's maxim, "Less is more," evoked the grandeur of a scientific approach to life and art. In his buildings, the "machine and its products were expressed," writes Jonathan Hale in *The Old Way of Seeing* (Houghton Mifflin, 1994). "Use was expressed. And elemental form was expressed." Modernism sought to "cut away meaningless fuss and manner in order to get back in touch with fundamental truth." It didn't want to reflect its environment, it sought to rescue it.

Modernism dreamt of bringing the light of reason to a culture often sorely lacking in both. Frederic Taylor, the founder of scientific management, sought to do the same for business at the dawn of the 20th century. (He conducted his first time-and-motion studies at a U.S. Army facility that today is the site of the office complex where Harvard Business School Publishing is located.) He revolutionized the chaotic workplaces of late-19th-century America by imposing his principles of scientific management on them. At a time when progressives were advocating efficiency and expertise in all areas of society, Taylor believed his rational system would lead to increased productivity and worker prosperity. Of course, subsequent generations have found no small amount of hauteur—and misery—in the attitudes of both Taylor and the modernists. Despite their sublime designs, more than a few modernist buildings were practically uninhabitable. Similarly, Taylor's rationalist structures and processes often failed to factor the inelasticities of human psychology into the equation.

Gehry's work, as the exhibition at the Solomon R. Guggenheim Museum demonstrates, puts the nonrational tendencies of human behavior front and center. Gehry is renowned for designs that reflect their buildings' uses. His Peter B. Lewis Building at the Weatherhead School of Management at Case Western Reserve University in Cleveland, for example, sports organic forms—with unconventional metal skins—that literally burst out of a standard brick box. The design cleverly matches the innovativeness of the school's student-centered curriculum, notes Guggenheim curatorial assistant Kara Vander Weg in *Frank Gehry, Architect* (The Solomon R. Guggenheim Foundation, 2001). His design for a new Guggenheim facility in lower Manhattan "responds to the urban landscape that serves as its backdrop," Weg writes. "The rigid forms characteristic of a skyscraper—the quintessence of New York architecture—are fractured and recombined with a curvilinear body suggestive of the water's fluid movement."

Frank Gehry's design for a new Guggenheim facility.

Photo: David Heald. © The Solomon R. Guggenheim Museum. Reprinted by permission.

Contemporary management thought finds the loss of human dignity and creativity to be a steep price to pay for the rationality of Taylorist methods. Consequently, it advocates the rupturing or circumvention of rigid structures—much in the way that Gehry's undulating forms swoop over, through, and around rectilinear shells. Whereas Taylor sought to impose order on business processes, the current approach mimics nature by allowing the work to suggest its own structure.

Which approach is right? I think that misses the point. Look again at Gehry's design for the new Guggenheim and its context: an anemone highlighted against the serene coral reef of Wall Street's fenestrated skyscrapers, the organic juxtaposed with the well ordered. Each approach presumes the other, relies on it, and would be diminished without it. ❖

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Quick Scans

Ideas and insights from other management publications…

How to Supplant the Industry Leader

A FOCUS ON building "sustainable competitive advantages or advantages competitors cannot imitate" has created "a false impression that firms can find a preferred position where they can avoid most of the effects of competition and the actions of challengers," write Ken G. Smith, Walter J. Ferrier, and Curtis M. Grimm in **"King of the hill: Dethroning the industry leader."** Their research corroborates economist Joseph Schumpeter's mid-20th-century theory of creative destruction: if the "profits of the leading firm in the industry are substantial, competitors will find a way to imitate," the authors continue. Successful challengers "do not wait until their actions elicit reactions. Instead, they quickly surprise leaders with new and different sets of action." Moreover, the challenger emphasizes "engaging the leader, instead of avoiding the leader through sustainable advantage strategies."

The Academy of Management Executive, Vol. 15, No. 2, May 2001
For a copy of this issue, send an e-mail to jnlorders@oup-usa.org

Psychometric Testing: Trends and Types

FORTY-SIX PERCENT of firms surveyed by the American Management Association used some form of psychological measurement last year, down from 53% in 1998. A partial explanation, writes Jeff Barbian in **"Getting to Know You,"** is that it's hard to be selective in a tight labor market. Companies may be "shifting their testing from potential hires and rank-and-file employees to internal executive searches and training purposes." The Myers-Briggs Type Indicator, based on Carl Jung's theories of psychological types, is still the most widely used instrument. But for some HR managers, its emphasis on personality instead of behavior makes it inappropriate for workplace use. Other tests describe personality in terms of openness to experience, conscientiousness, extroversion, agreeableness, and neuroticism. Psychometric data "can be used to salvage group chemistry." Say you're assembling four teams with four members in each team. When it comes to conscientiousness, homogeneity is crucial: put the four people who rank highest in conscientiousness on the same team. But when it comes to extroversion, go with heterogeneity: "Distribute your four most extroverted workers into each of the teams as a means to flesh out the introverts."

Training, Vol. 38, No. 6, June 2001
For a copy, call 800-707-7760

Up-and-Coming Technologies

IN **"5 Patents to Watch,"** the editors of *Technology Review* highlight "intriguing and potentially world-changing patents" in the following areas:

- **COLLECTIVE COMPUTING**—tapping "the powers of many remote computers to accomplish large computational tasks, from cracking encryption algorithms to gene sequence analysis."
- **EDIBLE VACCINES,** which eliminate the need for needles.
- **RAMAN AMPLIFIERS**—the technological linchpin to the all-optical Internet.
- **TISSUE ENGINEERING**—the art of using cell samples "to repair and even replace damaged body parts."
- **MOLECULAR MEMORY**—using organic molecules instead of silicon chips to build tiny supercomputers.

Technology Review, Vol. 104, No. 4, May 2001
To order a reprint, go to www.technologyreview.com/magazine/may01/patents.asp

Turnover: Why Men and Women Leave

IF YOU'RE looking to understand employee turnover, "detailed measures of sex composition are significantly better than aggregate composition variables," write Marta M. Elvira and Lisa E. Cohen in **"Location Matters: A Cross-Level Analysis of the Effects of Organizational Sex Composition on Turnover."** "Women at all job levels are less likely to leave when more women are employed at their own job level," the authors conclude, based on their observations of 9,415 employees in a Fortune 500 company. "Women in low-ranking jobs are more likely to leave when there are more women in the level immediately above them and in executive levels." The rationale: "People prefer to work with similar others and tend to bring similar others into their organizations." But men typically enjoy a higher social status than women do, so men "in a numerical minority in a firm may receive special treatment, thus reducing any negative effects from working with dissimilar others." The authors' findings support this hypothesis: "The only significant effect of composition was that increases in the proportion of male executives decreased men's turnover."

The Academy of Management Journal, vol. 44, No. 3, June 2001
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