BEST BUSINESS BOOKS 2002
Books are not simply reflections of the culture: In no small way, they are the culture. One can, quite literally, read the battering Western capitalism has taken in the past year in the reflections of management and business authors. “How-to-do-it books poured off the presses in the boom years,” writes Frances Cairncross, management editor at *The Economist*, in her essay on business-ethics books, which begins on page 13. “Now, business gurus generally distance themselves a little more.”

The editors of *strategy+business* applaud this new thoughtfulness, and in this, *s+b*’s second annual guide to the best business books, we strive to guide our readers to the handful of works that we believe provide wisdom appropriate to this puzzling, critical economic moment. Once again, we’ve set our sights on identifying both new books and old favorites that pose stimulating questions and offer ideas and insights from (and for) business strategists, practitioners, and thought leaders.

Our approach, we concede, is utterly subjective. Some essays cover subjects of perennial interest: management and leadership. But we also sought to identify new topics and works relevant to this particular time, including free trade and globalization, managing in the “new Europe,” the science of networks, and women leaders.

Ten essays, 53 books, 30 works published in 2001-2002. We hope you enjoy … and profit.

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What Jack Welch Learned from THE Prussian Army

by Chuck Lucier and Jan Dyer

In August 1914, Germany committed virtually its entire army to the invasion of Belgium and France. Few German troops remained to defend East Prussia against the invasion of two huge Russian armies. Despite the numerical inferiority, Colonel Hoffmann, chief of the German Eighth Army staff, created an audacious strategy to surround and annihilate one of the Russian armies, and began detailed attack planning. At the same time, on a train traveling east, General Ludendorff, the incoming chief of staff of the reinforced German forces in East Prussia, identified the same opportunity and created exactly the same strategy. Paul von Hindenburg, the new commander of German forces in the east, implemented the Hoffmann/Ludendorff strategy. At the resulting Battle of Tannenberg, only 10,000 of the 150,000 soldiers in the Russian Second Army escaped.

Tannenberg was a triumph for the Prussian general staff — not only because of the decisive result, but also because two strategists independently and without coordination analyzed an unexpected situation the same way and created the same strategy. Both officers — building on years of study, debate, and participation in war games — saw the potential analogy with Hannibal’s destruction of the putatively superior Romans at Cannae, and adapted Hannibal’s strategy to the eastern front in 1914.

Military strategists use history — that is, the real-world experience of others, many of them long gone — to ground their contemporary analyses and decision making. The best business-strategy books similarly equip corporate leaders with the cases, analogies, sound ideas, practical recommendations, and thought-provoking hypotheses that enable them to achieve business success. Although not all victories are the equivalent of the Battle of Tannenberg, a company’s life is at stake in an increasingly volatile global economy in which public memory is fickle and shareholders pitiless. Four books published in 2001 and 2002 offer strategies, templates, frameworks, and tools that can help leaders thrive, even if, like Hannibal at Cannae, they’re short an elephant or two.
In *Straight from the Gut*, Welch makes clear that, in turning GE into one of the most respected and highly valued conglomerates of the modern era, he didn’t rely on improvisation by gifted amateurs. The Crotonville management development center provided world-class training to thousands of managers — the modern business equivalent of the training Ludendorff and Hoffmann received as they rose through the ranks of the Prussian military. Differentiating people’s performance and rigorously cutting the bottom 10 percent each year ensured that GE had the deepest bench of managers in the world.

Because much of the Welch saga is so well known to business executives, it’s fair to ask what use a strategist can make of *Straight from the Gut*. Very few companies, we hypothesize, can adopt GE’s evolutionary strategy approach. As Welch’s memoir makes clear, that methodology requires an extremely strong management team, world-class management development, and a succession of ideas that supercharge performance. The poor track records many ex-GE executives have registered as CEOs of other companies supports our hypothesis; even extraordinary managers have trouble adapting techniques that work in talent-rich organizations to more typical companies. The current poster child for corporate excess and failure, Enron, exemplifies the dangers of a bottom-up evolutionary strategy approach guided only by the financial results achieved, rather than the discipline of Welch’s “single idea” and his continual probing of each business unit. Many of Enron’s financial shenanigans were cover-ups for the failures of all the businesses it spawned.

However, almost any company *can* benefit from Welch’s four transformation initiatives, which have proven their efficacy across an extremely diverse portfolio of businesses in a company that was already an excellent performer. These are:

- **Globalization.** During the 1980s, most GE businesses were U.S.-centric. Non-U.S. sales increased from $9 billion (19 percent of GE’s revenue) in 1987 to $53 billion (more than 40 percent of GE’s revenue) today. Although acquisitions and alliances were the vehicle for
much of GE’s growth, Welch focused the businesses on deals in regions that were either in transition or out of favor, as Europe was in the early to mid-’90s. In addition to pursuing this contrarian investment strategy, GE committed some of its best people to global assignments — not as business-unit general managers, but in “looking for deals, building business contacts, and being a champion for” the region.

- **Services.** Services were an equally important element of GE’s growth. For example, in Medical Systems, service sales increased from 18 percent of a $600 million business in 1980 to 41 percent of a $7 billion business in 2000. Overall, Welch projects that services will grow into an $80 billion business for GE by 2010, 10 times the size it was in 1995. As with the globalization initiative, GE’s services success required the commitment of great people, alliances, and acquisitions. In addition, investment in technology for services enabled GE to sign long-term service agreements, deliver rapid payback to customers, increase customer intimacy, and increase service margins (e.g., tripling service margins in transportation).

- **Six Sigma.** Six Sigma — the quality management program pioneered by Motorola, and significantly improved by GE during Welch’s tenure — drove the increase in GE’s margins from 14.8 percent in 1996 to 18.9 percent in 2000. GE-style Six Sigma is much more than the Total Quality Management programs that many companies have launched. Like all major initiatives at GE, Six Sigma commanded GE’s best people (only Six Sigma “black belts” receive GE stock options) and was designed to have a measurable effect on earnings.

- **E-business.** Like Six Sigma, GE’s digitization initiative focused initially on cost reduction, on “taking out the low-value-added work in the guts of the company.” At first, digitization saved 5 to 10 percent on the $50 billion of goods and services GE purchases annually, and another $1 billion in its backroom operations, while increasing service levels to customers (online sales were $15 billion in 2001). Welch expects that eliminating “touch points” — the steps in a process when paper has to be handled by an employee — will reduce overhead costs by a total of 30 percent ($10 billion).

Gaining the benefits of these initiatives requires both a GE-like commitment to bringing improvements to the bottom line and a Welch-like championing of only one or two initiatives at a time in every internal forum for several years. That’s a formidable leadership challenge. But as GE has shown, it can be done.

### Starting Point for Strategists

While Welch provides initiatives you can use, in *The Art of Profitability* (Warner Books, 2002), consultant Adrian Slywotzky offers 23 profit templates that can provide the skeleton for a business strategy — just as the battle of Cannae provided the skeleton that Hoffmann and Ludendorff fleshed out into the strategy for Tannenberg.

Strategists will recognize Slywotzky’s profit patterns — familiar concepts, new and old, including solutions, de facto standards, blockbusters, life cycle, relative market share, installed base profits, and even the experience curve. But familiarity doesn’t detract from *The Art of Profitability’s* value. Abstracted from the successful experience of many companies, the profit templates not only facilitate thinking “outside the box,” but also ground strategy in fundamental economics that have proven to yield superior profitability in other industries. Although 23 patterns don’t exhaust the universe of all possible strategies, they’re sufficiently comprehensive that they provide a useful checklist at the start of strategy formulation. One of our clients begins its strategy process by evaluating which three or four of the profit patterns might work in a business unit, fleshes out each of these patterns into a strategy, and then chooses among them.

We also liked the style and structure of *The Art of Profitability*. Slywotzky has adopted a novelistic approach to describing the development and application of corporate strategy. Telling an even simpler story than Eliyahu Goldratt’s *The Goal: A Process of Ongoing Improvement* (North River Press, 1992), he eavesdrops on the conversation between a strategy guru and a midlevel manager, drawing us into a dialogue about how companies make money. The format is surprisingly effective: People embrace stories, and economic logic communicated through dialogue is more engaging than the traditional didactic approach. The technique also enables Slywotzky to sidestep one of the perennial problems faced by con-
sultant authors — how to cite examples of less successful companies without angering past or prospective clients — by using fictionalized stories of companies.

The Art of Profitability is weakest in helping managers move beyond the profit-pattern skeleton to flesh out real strategies. It’s not that the issue is ignored; the guru and the manager discuss the challenge of creating and implementing strategies several times. However, in contrast to the deep insights about profit skeletons, neither character understands mobilization of organizations around real strategies. As the guru concludes, “It’s a bit of a mystery.”

Mystery or not, strategy development receives an unusual and successful rendering in this book. Although the profit templates first appeared in 1999 in Profit Patterns (Times Business/Random House), written by Slywotzky, David J. Morrison, et al., Art has replaced Patterns on our bookshelf.

Both Welch and Slywotzky assert that digitization offers exciting opportunities, but John Hagel III, in Out of the Box: Strategies for Achieving Profits Today and Growth Tomorrow through Web Services (Harvard Business School Press, 2002), provides a much better — and more actionable — definition of its opportunities and challenges. Recent academic studies confirm what every manager knows from experience: Although information technology is an essential enabler of major changes in strategy, it slows implementation, requires major investment, and often forces compromises in execution. Hagel, former chief strategy officer of 12 Entrepreneuring Inc., believes that Web service technologies and distributed service architectures — such as the standards-based utilities that permit simple, flexible connections of heterogeneous platforms and businesses — will enable us to break out of the “box” of inflexible infrastructure and software.

Dell illustrates the power of the Web services approach. The company relies on third-party logistics companies (called “vendor-managed hubs”) to order and maintain inventory from its vast array of component suppliers. Each component supplier, vendor-managed hub, and assembly plant has its own set of legacy systems. To reduce inventory at its assembly plants, Dell shifted from a weekly demand forecast sent to its vendors to a new manufacturing schedule every two hours, published as a Web service on Dell’s extranet. The vendor-managed hubs automatically respond to the updated schedule — picking, packing, shipping, and delivering the required parts to the designated building within 90 minutes — reducing Dell’s inventory at the plants from 26 to 30 hours of production to three to five hours, while also freeing space at the plants for additional production lines. Dell is now deploying a Web service application to reduce inventory at the vendor-managed hubs: an extranet-based event-management system that automatically generates inquiries and confirmations of shipments from vendors to the hubs.

Web services offer the functionality of electronic data interchange (EDI) systems, with much lower investment. Rather than requiring a direct linkage to a vendor’s databases and applications (which compromises data confidentiality and requires costly custom programming), standards-based Web services provide a platform-independent linkage between Dell and its vendors. Because Web services leverage existing technology investments, incremental costs are low, supply chain partners have a greatly enhanced payback from participating, and additional functionality can be deployed incrementally.

Opportunities on the Edge

Despite the technical complexity, Out of the Box is an easy read for anyone with even basic familiarity with information technology. Most remarkable is Hagel’s ability to focus on the strategic forest and not get lost in the technology trees. He sees four major strategic opportunities created by Web services technology:

• Cost Reduction. Web services offer all companies a low-cost, low-investment way to realize the digitization opportunity that Jack Welch describes. Whereas Welch sees the principal opportunities in the guts of the com-
Hagel believes the opportunities are greatest at the boundaries of the enterprise, where the ability to link multiple hardware and software platforms is most powerful. Managers will welcome occasions to capture rapid reductions in costs as well as assets that can be pursued incrementally.

- **Process Networks.** Collaboration creates economic value by enhancing the effectiveness of a key process across the supply chain, not just at a single stage in the chain, as business-to-business exchanges do. Hagel hypothesizes that process networks will be formed around three core processes: supply chain management, customer relationship management, and product innovation. At the center of each process network will be an "orchestrator" such as Cisco or Nike, which will define requirements to participate in the network, recruit participants, define standards for communication and coordination, and assume ultimate responsibility for the output of the business process. Although most orchestrators focus on selling their own products and services, some existing ones — like Li & Fung Ltd., the Hong Kong–based garment industry supply chain manager — focus entirely on linking large customers (apparel designers, in this case) to suppliers.

- **Selling Web Services.** If Web services grow as fast and become as ubiquitous as Hagel expects, then selling such services is an exciting business opportunity. Although software providers and IT consultants are the obvious candidates, any innovator could choose to pursue the opportunity. For example, Citibank offered its payment-processing engine, CitiConnect, as a Web service.

- **New Growth Avenues.** Hagel hypothesizes that Web services will accelerate the trend toward companies' focusing on just one among three types of processes: customer relationships, infrastructure management, or innovation. Then, he believes, companies will grow through "rebundling," in which economies of scope will drive customer relationship businesses to offer an increasingly broad variety of products and services, while economies of scale cause consolidation among infrastructure providers.

The wild exaggerations and failures of New Economy prophets have made all of us skeptical of predictions that a technology will transform business. For the most part, Hagel avoids dangerous overgeneralizations and extrapolations. However, we're skeptical of the claim that Web services will result in an unbundling and rebundling of the value chain in the way that he hypothesizes. Outside the computer industry value chain, there's little evidence either of the underlying economic advantage of rebundling or of examples of companies successfully pursuing the strategy.

Still, that leaves three useful strategies that we agree are enabled by Web services: Offer exciting cost reduction opportunities for all companies, stimulate the development of process networks that reshape opportunities for most companies, and provide profitable opportunities to sell services for a few companies. If Web services truly enable companies to break the constraints imposed by their technology infrastructure, most of Adrian Slywotzky's mysterious gap between profit template and strategic reality may disappear.

**A Practical Tool Kit**

After Welch, Slywotzky, and Hagel help you create alternative strategies, use Martha Amram's *Value Sweep: Mapping Corporate Growth Opportunities* (Harvard Business School Press, 2002) to shape and select the best strategy. *Value Sweep* aims to provide "a practical, rigorous, and transparent valuation method for growth opportunities." Even though — possibly because — Net Present Value (NPV) analysis is widely used and computationally easy, most companies grossly misapply NPV and misestimate the relative attractiveness of alternative strategies. Amram offers sound, realistic valuation methodologies that demonstrate the need to overcome the inertia of yesterday's strategy and allow companies to assess their growth opportunities on an apples-to-apples basis. We appreciated *Value Sweep* for four reasons. First, *Value Sweep* provides tools you can use. Although most valua-

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**Most companies grossly misapply NPV analysis in weighing strategic options.**

We like Martha Amram’s book because it provides tools you can use.
tion books offer frameworks, examples, and “dos” and “don’ts,” real-world problems always seem more difficult than the books’. Amram, the president of Glaze Creek Partners, a consulting firm in Palo Alto, Calif., goes further than others, equipping the reader with templates, tables, and (on her Web site, www.valuesweep.com) downloadable spreadsheets. And she explicitly addresses many of the most difficult valuation situations, such as intellectual property and new ventures.

Second, the Value Sweep “mark to market” approach produces valuations consistent with those of the public markets. Of course, “consistent” doesn’t mean identical to the stock market’s valuation of an individual company; market valuation isn’t always correct, and the analyst often has inside information that’s not yet impounded in the stock price. In Amram’s approach, “consistent” means that a variety of market-based measures — for example, interest rates, risk premiums, volatility, futures prices of key commodities, and typical industry valuations — discipline the valuations and help ground them in reality. As the markets change, so will the Value Sweep valuations.

Some analysts don’t like this dependence on the public markets. They believe that they can do better by analyzing the fundamentals. The crazy public market valuations during the dot-com stock market bubble reinforce their point. However, we believe that everyone, including the analysts most committed to fundamental valuations, will find the Value Sweep methodology helpful. Right or wrong, public markets are the place that investments are predominantly valued and traded, and they are becoming ever more ubiquitous. The market’s valuations are real, and have real consequences; however excessive AOL’s January 2001 valuation proved to be, the company still managed to purchase Time Warner.

Moreover, in our experience, it’s always helpful to know how the public market would value an investment if it had the information available to the analyst, whether or not that valuation is considered “correct.” If the public market’s valuation is significantly higher, it might be better to sell the investment (and in today’s markets, in which singer David Bowie can issue bonds on his future license revenue, virtually any investment can be sold!). The strategic implications are significant; public market valuations show how an investment will affect a company’s stock price, or the stock price of its competitors if they make a similar investment.

The third benefit of Value Sweep is that it highlights the proactive questioning that an analyst should do to probe the reality of a valuation, to test the critical risks, and to restructure the sequence of investments to increase value. Too often valuation is viewed as a calculation. In her examples, Amram scrutinizes the questions that equity investors and good CFOs ask. The Value Sweep templates include qualitative evaluation; in a section called “The Story,” the author challenges the analyst to write two sentences — one with the key argument in favor of the investment and the other with the key argument against.

Finally, Amram provides consistent, but differentiated, valuation. One of the principal challenges in valuation is that different investments require different methodologies. Traditional discounted cash flow works fine if there is a single decision point and fairly predictable cash flows. But a lease for an offshore oil field or for 3G spectrum requires options-based valuation, because of the series of decisions and the significant market price uncertainty involved; venture capitalists use yet a different valuation method. One problem with most valuation books is that they try to use a single valuation method for these very different investments. Amram honors the differences by offering several methods and provides a simple logic to decide which method to use, yet ensures that all the methods use a common philosophy so that a firm’s full sweep of opportunities can be valued consistently. For valuation, Value Sweep is the book to use.

Will these four books equip you to strategize a Battle of Tannenberg? Probably not on their own. But with their combination of stories, tools, and frameworks, they will equip the modern strategist to build a profitable enterprise — even without the help of the Prussian army. +

Chuck Lucier (lucier_charles@bah.com) is a senior vice president with Booz Allen Hamilton in New York. His client work focuses on strategy and knowledge issues for health companies.

Jan Dyer (janet.dyer@ptsem.edu) spent 11 years at Booz Allen Hamilton, where she served as the firm’s director of intellectual capital and worked with corporations in a variety of industries. She specializes in the strategic application of knowledge and learning.
The late Donald Schon, a respected management academic at the Massachusetts Institute of Technology, once described the varied topography of business practice as comprising some high, hard ground overlooking a swamp. On the dry land, technically interesting management problems can be solved using the latest sophisticated techniques. In the swamp, practitioners grapple with messy, confusing problems, whose very nature defies any technical solution. Schon pointed out that, despite their technical interest, the high-ground problems are relatively unimportant to individuals and society at large. All the important issues lie in the bog.

In the early 1950s, almost all management advice was given from the high ground: It was assumed that the management scientists would soon drain the swamp! Over the years, however, as this hope has faded, more and more management writers have descended into the slough to help practitioners grapple with the so-called wicked problems that lurk there. The publication in 1982 of *In Search of Excellence* (Harper & Row) was an important catalyst in this process. Tom Peters and Bob Waterman attacked what they called “the rational model” — the view that management is, or ought to be, a logical process — for its inability to handle such problems. For these are the quandaries in which the choice between good and bad is never clear: More often the choice is between two “goods,” or, worse still, between two “bads.”

The complexity of these wicked problems has been underscored by the current mayhem in corporate America. How is it possible for corporations whose strategies were developed and approved by some of the best brains in business to suddenly collapse and for their great plans to be revealed as nothing more than wishful thinking? Why did outside auditors and boards of directors, who should have been the shareholders’ watchdogs,
mysteriously morph into the management’s poodles? What is it about a bull market that compels us to interpret successful opportunism as rational strategy?

The answer: Twin logics appear to vie with each other in the minds of people and their organizations. The problem isn’t whether management should or should not be a rational activity; the problem is that there are two distinct, often competitive rationalities. There is the familiar, clear, task-based logic of the high ground — here business issues are, in principle, analyzable, and some conceptual frameworks produce better results than others. Then there is the murky logic of the swamp, where we are emotional, social creatures, not logic machines, who need the esteem and affection of others to function effectively and to maintain group solidarity. Since we don’t make sense of the world as lonely individuals — business is a community effort — we will often shape our worlds intellectually in ways that don’t square with the dispassionate, “objective,” logical view of the situation. Indeed, all the evidence suggests that the logic of relationships is primal and much more powerful than the logic of tasks.

The relationship between the two logics is rather like that between a map and a compass. A map is an instructive abstraction, provided it’s the right scale and identifies the features you’re interested in — shops, rivers, the contours of the land. Compasses, on the other hand, are useful in strange places — compasses don’t generate instructions, but they do give you a general sense of direction. When you are navigating on hard ground, strategic “maps” may be enormously helpful; landmarks are readily visible, and you may have a clear idea of your position. But maps will be of little help if you don’t know where you are. For example, they are useless in a swamp lacking landmarks. In a morass, one needs a sense of direction rather than instructions; a compass rather than a map. In the management field, this is what leadership is all about — supplying a sense of direction.

Managers vs. Leaders

The move from the high ground to the swamp in management writing during the past quarter century has been accompanied by an emphasis on leadership as an activity distinct from that of management. If management is concerned with “mapping” the task logic necessary to run an efficient firm, then leadership deals with something very different: the emotion-based logic of the people who work in the organization and whose commitment and focus are so important to its success.

This distinction between management and leadership was first brought to prominence by Harvard Business School professor Abraham Zaleznik in his seminal 1977 Harvard Business Review article “Managers and Leaders: Are They Different?” His conclusion was that they differed fundamentally in their world views: Managerial goals are passive and impersonal, arising out of the necessities of the existing business rather than people’s desires. Managers work to limit choices and reduce risk in pursuit of these goals. Their relationships with people are cool and are dominated by the roles that people play in the overall process. Managers see themselves as conservators and regulators of the existing state of affairs.

In contrast, leaders are active and personal in their goals. They shape ideas, changing the way people think about what is desirable, possible, and necessary. Leaders see their role as opening up options and encouraging risk taking. Their relationships with people are intense and personal, often evoking feelings of love and hate. Far from being conservators of the system, leaders see themselves as creating something new and different.

For example, in The Heart of Change: Real-Life Stories of How People Change Their Organizations (Harvard Business School Press, 2002), John P. Kotter, the Konosuke Matsushita Professor Emeritus of Leadership at Harvard Business School, recounts how the first action of one new CEO was to nuke the executive floor. Everyone in the corporation had known that the huge, art-filled, mahogany-paneled offices with their adjoining baths, showers, and conference rooms were a legacy from a bygone era, but no one had seriously thought to change them. The costs would be high and the benefits small, or so they thought. Now here was the new CEO tearing down the outsized offices and replacing them with smaller ones, putting in lots of shared meeting rooms and converting the express elevator that served only the executive floor into a local one that made all stops. The CEO’s purpose was to communicate the
necessity for real gut-wrenching change, and the apparently extravagant removal of the old symbols of top-down rule sent a message more powerful than any PR campaign.

This story is one of 34 such anecdotes from Kotter’s new book, written with consultant Dan S. Cohen. They interviewed more than 200 people to extract stories of change. These real-life short stories amplify the dynamics of Kotter’s now well-known eight-step process of change (increase urgency, build the guiding team, get the vision right, communicate for buy-in, empower action, create short-term wins, don’t let up, and make change stick) first framed by him in Leading Change (Harvard Business School Press, 1996).

In The Heart of Change, Kotter contrasts two core patterns or methods of effecting change — the classic business school analyze-think-change sequence, and the more intuitive see-feel-change process. He finds that the first, more cerebral approach is rarely used in successful organizational change. The second approach, which engages people in the organization at the visceral level, is almost always present. Kotter uses the stories to demonstrate how the second mode was employed in each of the change steps. In one tale illustrating the first step, “increase urgency,” a purchasing agent dissatisfied with the corporation’s haphazard buying practices assembles samples of each of the 424 different gloves the company buys and dumps them with their disparate prices attached on the boardroom table. When executives are called in to see this amazing exhibit, it creates an urgency for change that is far more compelling than an abstract cost accountant’s report detailing possible savings. The problem is dramatically illustrated as real — here and now — rather than something theoretical dreamed up by a desk jockey.

Emotional Intelligence
The distinction between management and leadership and their different logics has also been highlighted by the work of Daniel Goleman and his colleagues, Richard Boyatzis and Annie McKee, describing emotional intelligence. With his concept of emotional intelligence, Goleman has done for leadership what Michael Hammer with his concept of reengineering did for business process improvement. They have both packaged and branded an existing set of ideas and techniques and made them accessible to a wider audience.

In Primal Leadership: Realizing the Power of Emotional Intelligence (Harvard Business School Press, 2002), Goleman’s third book on the subject, he introduces more evidence for the power and leverage of emotional intelligence (EI) to produce high performance when compared with conventional cognitive abilities (IQ) and technical expertise. Once individuals are over a threshold IQ level (it takes a minimum IQ of 110-120 to get an MBA), EI capabilities seem to account for 80 percent to 90 percent of the differences between them in their effectiveness as leaders. To be an effective leader, it seems that the more EI skills (self-awareness, self-management, social awareness, and relationship management) you have, the better.

Goleman argues that emotionally intelligent leadership can produce organizational climates conducive to high performance because moods are contagious — we pick up our feelings, upbeat or sad, excited or apathetic, from those around us and then spread them to others. So-called resonant leaders, who are attuned to people’s feelings, can sense and respond to these moods, acting as catalysts to turn vicious emotional dynamics into virtuous ones. Such leaders have resonant styles Goleman describes as affiliative, blending, coaching, and democratic. Dissonant leaders, on the other hand, cannot respond because they are insensitive to whatever feedback they may be getting. Indeed, they may not be getting any feedback at all. For although their dissonant leadership styles — which Goleman classifies as commanding and pacesetting — have their uses at times in every organization, they inhibit feedback when used as default leadership styles.

The author describes this vicious feedback-reducing dynamic at the top of organizations as the CEO disease. Too often senior managers end up in an information vacuum, where important information is withheld from them, either for fear of their wrath or in deference to an organizational culture committed to accentuating the positive. Clearly this disease was endemic in the upper echelons of Enron.

Goleman’s recommendations for dealing with the perceived dearth of emotional intelligence are pitched at
both the individual and the organizational level. Unlike analytical techniques (such as reengineering), EI competencies cannot be acquired conceptually; they can be developed only through well-structured experiences. The author suggests tailored learning agendas to include extended practice and constant feedback. This requires considerable commitment on the part of the individual to close the perceived gap between his or her ideal self and actual self. It also demands a willingness to be introspective — a skill that is often in short supply in the executive suite. Moreover, the concept of practice, while familiar to athletes, may seem strange to many managers, who are used to spending nearly all of their time performing.

**Searching for Bedrock**

Many management writers would agree with Schon that the important management problems lie in the swamp, but there is disagreement about what lies beneath it: Is there bedrock, or is there mud all the way down? If there is bedrock, then there is a real attraction to conceptual structures built on such foundations. Like those on the high ground, they would promise a singular rationality that can appeal to “hard” disciplines like economics, with its attribution of self-interest to human action.

With its portentous title, *What Management Is: How It Works and Why It’s Everyone’s Business* (Simon & Schuster Inc., Free Press, 2002), written by consultant and former *Harvard Business Review* strategy editor Joan Magretta, with the magazine’s former editor Nan Stone, represents a lucid and provocative description of the bedrock, the fundamentals of management, which the authors believe lies under the swamp. They define management as the capacity to turn complexity and specialization into performance, and they detail how their approach could affect both for-profit firms and not-for-profit organizations.

The book has a certain *ex cathedra* quality — this is the way it is. For example, the authors dismiss the arguments about management versus leadership as superficial and even damaging to the whole field of management. And they encourage the reader to “…think of this book as everything you wanted to know about management but were afraid to ask.”

One question some readers might want to ask is: Why is the book organized into two such neat divisions — Design and Execution? The implication of such a structure is that, at least in principle, organizations should be designed on drawing boards and the blueprints handed over for implementation: Structure follows strategy. Magretta and Stone describe entrepreneurial icons such as George Eastman (Kodak) and Sam Walton (Wal-Mart) in their early years as “thinking through” who the customers are and what the customers value. Everything we know about how entrepreneurs work suggests that this almost certainly didn’t happen. This mode of working is just not practicable early in the life of an organization, unless one stretches the action of “thinking” to meaninglessly large dimensions. The entrepreneurial process is inherently unstructured, and the crisp logic of strategy often emerges only retrospectively after long periods of trial and error. Although the process may be heavily rationalized in hindsight, it is rarely rational at the time.

In recent years, arguments against the rational-actor model have been cogently made by such academics as Henry Mintzberg in *The Rise and Fall of Strategic Planning: Reconceiving Roles for Planning, Plans, Planners* (Simon & Schuster Inc., Free Press, 1993) and Robert Burgelman in *Strategy Is Destiny: How Strategy-Making Shapes a Company’s Future* (Simon & Schuster Inc., Free Press, 2001). The empirical evidence for the rational model is skimpy, and it ignores the complex co-evolution of acting and thinking in any human enterprise. Thus it’s a little surprising that Joan Magretta and Nan Stone should nail their strategy colors so firmly to Michael Porter’s mast and omit any mention of either emergent strategy or the constraints against innovation that mature organizations face as they age. Porter’s frameworks are brilliant tools for MBA students to use in analyzing industries, but they are much less useful down in the
gumbo where managers and workers are trying to make sense of the dynamics of their own particular organization.

*What Management Is* has been hailed in some quarters as a refreshing return to the basics. But this ignores the fact that these are the very basics that got us into trouble in the first place. This monolithic view of management makes external observers of apparently thriving organizations — directors and analysts alike — vulnerable to elaborate rationalizations of opportunistic successes that may not be sustainable. Internally, this vision of management privileges the view of senior managers. It makes them feel good about themselves, but it often does so at the expense of those who work for them. Such a perspective may encourage its adherents to default to those dissonant commanding and pace-setting leadership styles identified by Daniel Goleman and others, with the accompanying inhibition of feedback from the bottom to the top of the organization.

Magretta and Stone’s denial that people and things function according to very different and often competing logics represents a determined, even reactionary, attempt to stuff the elusive genie of leadership back into the management bottle. Senior managers feel self-confident and powerful, but, immune to anything other than favorable comment, they end up taking their organizations in directions that they cannot or should not go. They can describe the broad path that leads to the future in eloquent, persuasive terms, often attracting the support of management academics in the process. But, as recent corporate history reminds us, without a moral compass to guide them, too often they and their unfortunate followers end up in a quagmire.

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**Enron and Other Moral Hazards**

*by Frances Cairncross*

You have to understand,” says Cath, the heroine of Kate Jennings’s new novel of Wall Street excess, *Moral Hazard* (HarperCollins, Fourth Estate, 2002), “that Mike and I worked in the modern-day equivalent of the court of Louis XVI. All around us, impossible
sums of money were heaped upon people who were no more deserving of it than any other kind of professional. Sure, they put in long hours in a Darwinian environment, but the same could be said of New York City public school teachers."

In this semi-autobiographical novel set in the 1990s, Cath, a feminist writer, finds herself forced into the epicenter of macho business culture when she accepts a job as a speechwriter for a big New York investment bank in order to pay for medical care for her husband, Bailey, who is suffering from Alzheimer’s disease.

Cath not only confronts her own moral dilemmas in working within a culture that is utterly alien to her personal values, she observes firsthand how the tenuous links between capitalism and ethical behavior sometimes snap under the pressure to make more and more money fast.

Through much of the 1990s, companies talked plenty about good governance and corporate social responsibility. Hanny, Cath’s boss, sees himself as the repository of the firm’s values, or “touchstones,” because “the apex of his career had been to give voice to them.” The values — words such as “respect” and “integrity” — appear “engraved on brass plates attached to walls, chiseled into marble floors, pressed into Lucite paperweights.” Gradually, Cath realizes how many lawyers are employed to defend the firm against charges resulting from lapses in these ubiquitously displayed values. Her boss tries to
The touchstones are aspirational. In any company, there are peaks and there are troughs. It’s our job to describe the peaks.”

But how do we get rid of the troughs? It is hard not to conclude from Kate Jennings’s work of fiction, along with a new crop of business books examining the latest corporate scandals, excesses of the dot-com boom, and the struggle to preserve a moral balance in a moneyed world, that the relentless drive for a quick buck was largely responsible for the lapses and hubris of the 1990s — and for today’s dour business conditions. For all the talk about wealth creation for the many and the long term, what financial markets mainly care about is extracting as much as possible, as quickly as possible, for today’s shareholders. No wonder corporate bosses, faced with such pressures, give way to impatience and poor ethical judgment. In the current climate of censure and contrition, these books are valuable reminders of the ethical fragility of the capitalist system, so often invisible when times are good.

**Boom Times**

So did the hot years of the 1990s, like the reign of Louis XVI, really presage bloody revolution? Or is this one of the brief bouts of self-doubt that so often accompany economic downturns?

Look along the business bookshelves, and there are early signs that some authors have spotted a new bandwagon and are leaping aboard. Corporate adulation is out; repentance and rebuke are in.

With *How Companies Lie: Why Enron Is Just the Tip of the Iceberg* (Crown Business, 2002), A. Larry Elliott and Richard J. Schroth certainly have the title of the moment. Their book, finished in January 2002 and on the shelves in July, has that Methodist-preacher tone that President George Bush adopted in his speech to American business leaders in July, and which chimes with the times. “The financial manipulations that have emerged over the years are no longer tolerable,” the authors thunder. “Indeed, the damage caused by trading manipulations and accounting fraud ... could be the seeds of serious calamity in the future.”

Elliott and Schroth set out to tell you how companies befuddled investors, and why they got away with it. Their book is fun to read, although it shows the effects of writing in haste (it is a sort of tut-tutting amalgam of corporate naughtiness, flung together without much coherent structure or analysis). But it tells the target readers (investors and executives) what signs of trouble to look for in a company. These include lots of insider trading, projections about market potential that run counter to market research, and the abrupt resignation of senior executives. Ultimately, the authors write, good governance “largely depends on the integrity of the management team and the business culture they create and lead.”

The trouble is, in the atmosphere of a market bubble, it takes huge self-confidence to resist the pressure to stretch not just targets, but the truth, too. “Business lies begin innocuously,” Elliott and Schroth point out. “Cranberry juice contains only a fraction of real cranberries; blueberry cereal has no real blueberries.” They go on, “Business plans of new ventures are ... based on the dreams of business planners more than market reality. Sales forecasts inevitably have elements of guesswork. And, when companies miss their earnings targets, impatient markets wreak prompt and terrible revenge.”

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How true this was for the dot-com Value America, whose sorry tale is engagingly told by J. David Kuo in *Dot.bomb: My Days and Nights at an Internet Goliath* (Little, Brown and Company, 2001). Kuo, who lived through the rise and fall of Value America as its corporate communications officer, gives a witty and wide-eyed account of life in a failing dot-com, using a sharp instinct for telling details.

Value America, a onetime corporate dreamboat, was supposed to become the Wal-Mart of the Internet — indeed, the Microsoft of e-commerce. The face that smiles engagingly from the book wrapper is far too unwrinkled to have had any premonition of catastrophe as the company sailed through a $130 million initial public offering, its stock soaring to a market capitalization that was twice that of the strong books business of Borders, and then proceeded to burn its way through $12 million a month.

In the heady environment that Kuo so vividly describes, where even the call girls desert Hollywood for Silicon Valley and insist on payment in stock options, it is easy enough to see how integrity could get lost. Kuo
joined the company after the stock price began to slide, only to discover that the job of the corporate communications offices was to get the stock price back up: “I was Value America’s Viagra.” What, in a sentence, described the company?, David Kuo asked CEO Craig Winn, the company’s creator. “There is no way to relate the revolutionary story of Value America in just one sentence,” replied Winn. “We are the marketplace for a new millennium.”

Kuo recalls how he felt at that moment: “All my internal voices sang in harmony, ‘Run away! It was a virtual symphony of fear.” But he didn’t: Instead, he stayed on to see, in the closing hours of 1999, the biggest Internet layoff on record as the company became the world’s first dot-bomb. Finally, in August 2000, the company went bust, as did hundreds of others that year.

Kuo’s book is as good an account as you’ll get of why people become carried away in a boom. Kate Jennings’s novel raises a broader question — whether the whole capitalist system is rotten and needs to be replaced by something better. Her (fairly) imaginary Wall Street investment bank, Niedecker Benecke, brings us back to the soaring and swooping era of the derivatives frenzy, the hedge fund debacle, the Asian markets crisis, and the default of Russia.

Jennings writes with charm, and gives a taste of the discomfort of being an ordinary, intelligent woman on Wall Street, where “women were about as welcome as fleas in a sleeping bag.” That alone gives her novel interest, and it is coupled with the fact that she speaks from experience: Jennings has done time as a speechwriter on Wall Street.

Her observations about the selfish and deceptive faces of capitalism are most telling when she writes about the gulf between what the company thought it believed in and the way it behaved. There is, for instance, a memorable passage in which, after Russia’s default, a banker breaks the corporate code of platitudes by demanding to know, at an in-house meeting to rally the troops, “Why was so much of our capital invested in a country that has never had a market economy … a country run by gangsters?” The chief executive responds, “It’s a risky world. Always has been, always will be.”

Jennings also neatly catches the tone of grandiose pseudo-altruism that so often pervaded corporate presentation in that era. The company launches a new advertising campaign under the slogan “Niedecker Benecke. Building the Globe. Building Tomorrow.” The head of corporate public relations outlines Niedecker’s plans to finance schools, hospitals, power plants, highways, and railroads — and to play its part in making every nation competitive. “Now, what were the takeaways from our discussion?” he asks patronizingly. “Niedecker is serving humanity, sir,” replies the heroine with ingratiating irony. “At its beck and call.”

However, Jennings’s most memorable and moving passages are not about capitalism and corporate ethics. They describe the wreckage of Cath’s husband, Bailey, by Alzheimer’s. Here, her prose comes alive. Back at the bank, she never really makes her criticism of corporate life bite hard, as Tom Wolfe did with his “Masters of the Universe” in Bonfire of the Vanities (Farrar, Straus and Giroux, 1987), or in the way that Anthony Trollope did in his magisterial novel of corporate greed and business failure, The Way We Live Now (Chapman and Hall, 1875). Both these writers, whose books are worth turning to again today, understood perfectly the male gender’s peculiar blend of arrogance, stupidity, and greed.

Perils of Myopia
Larry Elliott and Richard Schroth’s analysis, David Kuo’s memoir, and Kate Jennings’s fiction all in their different ways show the perils of the short-term approach to business that puts almost unbearable pressures on corporate managers. Conditions change in unpredictable ways, and even when times are good, development of new markets and new products is long and slow. Wall Street may want results in weeks, yet most companies take months, many quarters, or years to change.

Chuck Martin’s Managing for the Short Term: The New
Rules for Running a Business in a Day-to-Day World (Doubleday, 2002) also analyzes the clash between short- and long-term timetables. Martin, who runs an executive think tank called the Net Future Institute, is in the rather old-fashioned business of discovering new rules for corporate survival — in his case, for managing within shorter time frames.

His is the only one of the five books reviewed here that has an instructional tone. (How-to-do-it books poured off the presses during the boom years; now, business gurus generally distance themselves a little more.)

Martin has talked, as authors of such books tend to do, with myriad bosses to discover how they see the world. The long term, it seems, is somewhere between two and five years; the short term, the quarter or the year. For some, such terms are mutable. “I am a sales VP,” said one of Martin’s interviewees. “I see life in 90-day increments. My joke is that strategic planning for me is where I am going to have dinner tonight.”

As Charles Handy observes, “Capitalism knows all about the means of wealth creation but is unclear about the ends.... That may yet be its downfall.”

According to Martin, short-term management seems to require some fairly commonsensical principles: Quantify whatever you can, in order to set goals and align objectives; move forward in incremental steps that deliver results progressively; and make sure everyone in the company knows what the management is trying to do. All well and good. But a tiny note of alarm should creep in halfway through the book, when he lists which corporate departments present his executive interviewees with the greatest impediment to “change” (disturbingly, he fails to define precisely what he means by change). Fifteen percent of them pointed to the legal department; another 23 percent said finance. But sometimes, thwarting injudicious change is exactly what the legal and finance departments ought to do. Indeed, it seems neither department has done enough thwarting in some companies.

All too often in the past year, the chief financial officer has emerged as the boss’s accessory in massaging earnings or creating special off-balance-sheet hiding places for losses. At Xerox and Global Crossing, WorldCom and Enron, far from advocating intelligent management reforms, the CFO has notably failed to deter the sort of “short-termist” attitudes and actions that cheat investors and destroy wealth. Martin’s advice on making managers more effective and efficient is sensible enough, but it would have been much more reassuring in a book appearing at this time to see a chapter on the dangers of the short-term management approach.

Making Capitalism Work

In the aftermath of Enron, many people wonder whether there are ways to make sure that executives stay honest in the future, given all the pressures they face to stretch and bend the rules. The introduction of yet more corporate rules is unlikely to achieve very much. But there are some interesting suggestions for ways to reduce the short-term focus that makes life difficult for so many bosses.

For instance, Elliott and Schroth propose getting rid of 90-day reporting and replacing it with a “semianual comprehensive review and report of audit.” The relentless reporting cycle currently forces executives to manage their stock first and their business second. “They don’t have the time to do both,” the authors write. Well put. The authors also call for more independent boards and more active communication between directors and investors. They want consideration of a provision that would allow directors to reject a takeover that is in the interests of shareholders but not of other stakeholders such as employees and host communities. (In the U.S., legislation passed by Congress in July 2002 to crack down on corporate abuses and increase shareholder protection begins to address some of these ideas.)

All this is radical stuff. Still, we live in radical times, when the only American president ever to have earned an MBA denounces executives for “breaching trust and abusing power,” accuses them of “cooking the books, shading the truth, and breaking our laws,” and demands “a new ethic of personal responsibility in the business community.”
The scandals at American companies have been particularly egregious, but capitalism has stumbled in Europe too. Any doubters should follow the tale of Asea Brown Boveri, the Swiss–Swedish engineering group that was once held up as a model of good governance and is now dealing with fraud affecting its results for 1999 and 2000. However, European authors sometimes seem more comfortable asking awkward questions about the basic morality of capitalism than American authors. That is certainly true of Charles Handy, a distinguished British observer of corporate life, and the only non-American writer represented in this selection.

Handy is no anti-American: Indeed, there are many aspects of American capitalism that he relishes. In his latest thoughtful and insightful book, *The Elephant and the Flea: Reflections of a Reluctant Capitalist* (Harvard Business School Press, 2002), he argues, “The idea that the future can and should be better than the past is one of the most invigorating aspects of American culture.” And he adds, “The envy that can be corrosive in other capitalist societies seems in America to fuel ambition and hope.” But he is realistic about the aspects of capitalism he does not relish. It is, he points out, “the only game in town. Even if we wanted to, there is no way to stop it.”

But that is not enough, Handy says. Capitalism needs to work for many more people than it does today. The benefits of capitalism are spread among perhaps 2 billion of the world’s 6 billion people. If capitalism does not succeed in the developing world, then the poor will leave: Migration is already, he says, “set to be the major issue of this century.” For all our sakes, we must find ways to make capitalism work everywhere.

That may require a different variant — or several different variants.

If we give too much priority to maximizing wealth creation, we may again forget the reasons we wanted wealth in the first place. As Charles Handy observes, “Capitalism knows all about the means of wealth creation but is unclear about the ends, who or what that wealth should be for. That may yet be its downfall.” To be sure, it is the get-rich-quick fever of the past decade’s wealth creation that has brought down so many of today’s companies and undermined faith in the financial system. Raw greed is not a stable foundation for a society to build on.

Do capitalists care? Jennings is a pessimist, likening bankers’ ability to forget the lessons of past mishaps to a form of professional Alzheimer’s disease. Larry Elliott and Richard Schroth are equally glum: “The most probable outcome of this financial chaos will be the traditional activity of ‘study, wait, delay, and forget.’ Those in political and business circles most responsible for the ‘Enrons’ of our time are the ones who do not want change.” And to tell the sad truth, public opinion polls give comfort to the foot-draggers. A recent poll found that American business leaders were even less trusted than Catholic cardinals.

In the end, neither reminders nor prescriptions will solve the problems. It will take capitalism to reform capitalists. If the markets begin to favor companies that struggle to put honesty before fudge, if they distrust mergers and reward transparency, if they prefer good management to earnings management, then change will occur. Only investors have the power to make good governance rewarding — and only if it is rewarding will companies adopt it as a matter of course.

Frances Cairncross (FrancesCairncross@economist.com) is management editor at The Economist. Her most recent books, *The Death of Distance: How the Communications Revolution Is Changing Our Lives* (Harvard Business School Press, 2001) and *The Company of the Future: How the Communications Revolution is Changing Management* (Harvard Business School Press, 2002), examine, respectively, the economic and social effects of the global communications revolution, and the ways in which the Internet affects how companies operate and are managed.
took this whale of a book to the post office and put it on the scale. It weighed in at eight pounds, five ounces. Perseus Publishing has given birth to the Mother of All Business Books.

“Book” doesn’t really describe it. Business: The Ultimate Resource (2002) is a business library between covers, an ambitious undertaking, which, to a large extent, succeeds. It has 2,169 pages, 180 contributors, and more than 500 guides, lists, charts, essays, book summaries, biographies, and other business summaries grouped in nine categories: Best Practice, Management Checklists, “Actionlists,” Management Library, Business Thinkers, Management Giants, Dictionary, World Business Almanac, and Business Information Sources. One doesn’t read a volume of this scope — the obvious analogy is drinking from a fire hose — one refers to it.

Whether one reads or refers to Business: The Ultimate Resource, the book’s existence raises a fundamental question: Can executives learn better by reading or by observing or gaining experience? In his introduction, psychologist and author Daniel Goleman cites the compendium’s value as providing access to business expertise, literacy, and wisdom. Although the book is structured around organization and management processes rather than such subjects as marketing or finance, the comprehensive index and abundant cross-references provide access and make the book work.

The Best Practice section is a mixture of the practical (how to conduct performance appraisals), theoretical (the next scientific revolution), and trendy (investing in spiritual capital). It includes dozens of essays on 11 management themes from notable business thinkers, for example, “Creating Value Through People,” by David Maister, “Turnaround Strategies,” by Sir John Harvey-Jones, and “Marketing to the ‘Real-time’ Consumer,” by Geoff Mott and Regis McKenna.

The section also includes fresh insights. In “The Dance of Authenticity,” Watts Wacker and Ryan Matthews posit that authenticity — consistency
between what a company says and “how it lives” — will be one of the primary factors to differentiate products and services. And consumers, not companies, will be the judge. Companies, they write, “spend billions of dollars prattling on about how their product is genuine, their service personalized, intimate, and engaged … and about how their companies … are devoted to the betterment of consumer lives. No wonder we don’t trust them. Businesses can’t declare themselves to be authentic, that’s the customer’s job.” Christopher Locke’s “The Case for Business Criticism” argues that although there is substantial criticism focused on art, music, literature, and media, there is a “glaring gap” in our understanding of business in society. Locke believes there should be more commentary in which business is placed in a broader historical and social context.

Self-promotion sneaks into a few essays — creativity guru Edward de Bono claims his “lateral thinking” technique generated 21,000 ideas in one afternoon from 130 workshops; that’s 161 ideas per workshop, or nearly an idea a minute for three hours. But a healthy dose of skepticism also exists, in Lucy Kellaway’s essay on fads, “The Good, the Fad, and the Ugly,” for example.

The most useful sections are the Management Checklists and Actionlists. The range of subjects can be surprising — the “Developing a Strategy for a World-Class Business” checklist is not far from a checklist on “Setting up a Suggestion Scheme.” But both Management Checklists and Actionlists are organized for clarity and accessibility, with FAQs, “making it happen” advice, common mistakes, and a glossary. One can readily imagine a young executive getting an assignment to start a program for kaizen or Six Sigma, and going to one of these lists to get started.

The Management Library, summaries of 72 of the “most influential books of all time,” is a digest of classics like Thomas J. Watson, Jr.’s A Business and Its Beliefs, Ted Levitt’s Innovation in Marketing, Peter Drucker’s The Practice of Management, and Harold Geneen’s Managing. I might have included Alvin Toffler’s Future Shock instead of The Third Wave, or Anthony Jay’s Management and Machiavelli instead of Machiavelli’s The Prince, but that is carping. And it’s nice to have The Peter Principle and Parkinson’s Law near at hand.

The Business Thinkers and Management Giants sections field a business all-star team with a 102-person-strong lineup that goes from Adam Smith to Peter Drucker, Estée Lauder to Oprah Winfrey, Henry Ford to Warren Buffett, and Akio Morita and Jack Welch to Jeff Bezos. The essay on my former boss, David Ogilvy, is an engaging portrait of the most famous advertising man in the world (as he described himself), if less insightful on what he brought to the business.

The second half of the book is made up of the business Dictionary, the World Business Almanac (statistics and charts on almost every subject and geography), and a 235-page section (a book in itself?) of Business Information Sources in case of information malnutrition. Plus an index.

What is missing?

So many subjects are covered throughout the book, some with several entries (there are 21 essays on people and culture in the Best Practice section, for example), that it is surprising there is so little on what drives organizational success — innovation. There are dozens of operating principles, but only a handful on how to generate and protect ideas that set one company or brand apart from others.

The book is also thin on corporate governance. Although this project was obviously undertaken before Enron’s debacle and other corporate scandals, governance has been a growing concern over the past several decades. There are a number of entries for ethics, but they tend to be academic rather than directive. The chairman of a board audit committee once instructed me, “The tone is set at the top.” Or, as Harry Truman put it, “When I was growing up in Independence, there was right and wrong, and you didn’t spend much time talking about it.”

What is one to make of all the information in this hefty volume? Will it just prop up other books on a shelf? It is not the Oxford English Dictionary, that great (but simple) reference work. And it is hardly a coffee-table book, although it can be browsed and dipped into.

But Business: The Ultimate Resource lives up to its subtitle. It covers a lot of ground and will be useful to several audiences, in several ways. Executives will go to it for a reminder of what they should be considering while working on a project, or for an introduction to an unfamiliar subject. Junior executives (if they’re smart) will study it as a training tool. Business teachers will refer to it in course preparation.

Would I buy it and use it? I certainly would use it — and, at $59.95, it’s a real value.

Kenneth Roman (ken.roman@verizon.net) is a former chairman and CEO of Ogilvy & Mather Worldwide and has served on a number of boards of directors. He is coauthor of Writing That Works [HarperCollins, Quill, 2002] and How to Advertise [St. Martin’s Press, 1975], the third edition of which will be published in 2003.
A year had passed since our last strategy+business review of leadership books and CEO memoirs, so a trip to Borders was in order to see what was new in those categories. We discovered almost all the books in the management section had been published within the last calendar year (apparently, most business books have a short shelf life). However, there was a notable exception: Leadership for Dummies (John Wiley & Sons, 1999), by Marshall Loeb and Stephen Kindel, was well stocked and in the same prominent place on the shelf as a year ago … and was now in its second printing. Perhaps the parlous state of America’s corporate governance explains why Dummies has found such traction. Nonetheless, hoping to find some advice by and for “smarties,” we loaded five volumes with more-promising titles into our canvas tote bags. Admittedly, we may have been drawn to these particular books because all but one were penned by dynamic duos, and two of those were nicely balanced (in our biased view) between the worlds of practice and theory from which their authors hailed. Perhaps, we thought, this is a trend.

Still, we feared at the time that our process of selection might prove no better than a random grab. But upon finishing our reading, we were pleased to find the experience had been nothing like picking up books by five different economists; on the contrary, our authors draw consistent conclusions. They describe the tasks of leadership in much the same way, albeit from different professional, disciplinary, and values perspectives. Moreover, their arguments echo much of what we are hearing about the challenges of leadership from our clients, and what we are reading in the latest research literature. Hence, it might stand as some validation of the
advice these authors offer in these five highly accessible leadership tomes that, while reading them, we often emitted positive sighs of recognition.

Two Generations
*Geeks and Geezers: How Era, Values, and Defining Moments Shape Leaders* (Harvard Business School Press, 2002), by noted leadership scholar Warren G. Bennis and consultant Robert J. Thomas, builds on the theory of leadership development Bennis put forth in his 1989 bestseller *On Becoming a Leader* (Addison-Wesley Publishing Co.). As refined here, that model is relatively simple: Leaders are formed by a combination of their individual personalities and the events of the era in which they spend their formative years, factors then united “in a crucible of experience.” Individuals who are able to “organize the meaning” of their experiences effectively emerge from that crucible with four core leadership competencies: adaptive capacity, the ability to engage others, a distinctive “voice,” and integrity.

Bennis’s great conceptual contribution is that leaders are developed by way of the process he calls “reflection on experience.” Although everyone has experiences that are potentially relevant for personal growth, the mark of successful leaders is their ability to draw meaningful lessons from both good and bad ones, and then apply those lessons to leadership tasks. Since the life experiences of Geezers (whose characters were formed during the Great Depression and World War II) differ greatly from the experiences of Geeks (children of the high-tech era and now-battered New Economy), Bennis and Thomas ask the obvious question: “Do the approaches to leadership of members of those two generations differ accordingly?”

Two salient differences emerge from their interviews of members of both generations: First, Geeks are far more concerned than Geezers with balancing work and nonwork activities; second, Geezers have “heroes” — leadership role models like Franklin Delano Roosevelt and Winston Churchill; Geeks tend to model themselves after their parents, friends, and co-workers. The latter is not surprising, considering what is reported elsewhere in the book: Geeks apparently don’t read much. So how could they be expected to know anything beyond the world they experience personally?

In the book’s final — and quite profound — chapter, the authors raise a more subtle question: “Why are some people able to extract wisdom from experience, while others become its victims?” It seems all the Geek and Geezer leaders they interviewed had one thing in common: Each was able to tell a story about a defining experience in his or her life. The authors describe these “transformational” events that were “a test and a decision point, where existing values were examined and strengthened or replaced, where alternative identities were considered and sometimes chosen, where judgment and other abilities were honed.” Moreover, at this juncture all of the individuals displayed a marked “openness to experience.” In essence, “they were eager to learn” and, in parallel, were eager teachers.

Bennis and Thomas explore the implications of their findings for corporate processes of selection, training, mentoring, job rotation, and the like, and conclude that, for all the talk about — and dollars spent on — such activity, little of it is truly useful when it comes to leadership development. Hence, they reluctantly advise would-be leaders to learn how to develop themselves. If Geeks are even remotely as underdeveloped as they are portrayed to be in the book, they can look forward to a lifetime of serious self-help.

Up and Down the Line
*Geeks and Geezers* is about learning how to change yourself in order to become a more effective leader. In contrast, *Leadership on the Line: Staying Alive through the Dangers of Leading* (Harvard Business School Press, 2002), by Harvard professors Ronald A. Heifetz and Marty Linsky, is about learning how to help others change themselves (in order to change their organizations). The authors warn readers that attempting such leadership is “dangerous” because we “put ourselves on the line” when we disturb the easy assumptions of others, raise important questions they would rather not face, and surface unresolved conflicts they try to keep buried. Elaborating on the theory Heifetz introduced in his *Leadership Without Easy Answers* (Harvard University Press, 1994), the authors argue that effective leaders don’t solve problems for others; instead, they create conditions under which people learn to solve problems for
themselves. The rub is that organizations “serve to maintain the familiar, restore order, and protect people from the pain of the adaptive work” involved in such change efforts. So, when someone tries to lead, others resist with the force of the entire organization. In that sorry process, the would-be leader of change is systematically “marginalized, diverted, attacked, or seduced.”

What is powerful about this book is its ready acknowledgment that not all leadership comes from the top. Indeed, most of the authors’ examples concern people down the line who go beyond the bounds of their authority to lead change. Although business readers may find some difficulty connecting these examples (often drawn from the worlds of medicine and government) to their own leadership challenges, the lessons presented are useful nonetheless. Of particular value is the exposition of some 10 strategies for overcoming resistance to change. In these, the authors show that leaders are more likely to enlist followers when they “keep in check their own hungers” for power, control, affirmation, and importance — and, above all, when they avoid personalizing a change effort. The trick is for leaders to remember that the purpose of leading change is to help their followers create a better end for everyone in the organization — and not to make themselves rich, famous, or powerful (as too many leaders assume). Here the Bennis and Heifetz models overlap on a key dimension: the creation of meaning. In both models, leaders are said to infuse an enterprise with a higher purpose (for example, realizing the potential of all its members).

Heifetz and Linsky say the value added by leaders in change interventions is not the work they do directly but, rather, their success in getting followers to take responsibility for solving their own problems. In doing so, however, leaders invariably encounter resistance and leave themselves vulnerable to attack. Nonetheless, the authors encourage readers to take the risk of leading, to “put yourself and your ideas on the line” because, in the end, that’s what it really means to be alive. They say there is such intrinsic value in leading that we should all partake in the risks, responsibilities, and rewards of trying to make our organizations, and the people in them, perform up to the level of their potential. And they say we should do so even though the effectiveness of such leadership can’t be gauged by conventional metrics.

**Modesty and Greatness**

However, consultant and former professor Jim Collins offers some fairly convincing metrics for doing just that, gauging leadership effectiveness, in his best-selling book (and *strategy+business*’s “best business book of the year” in 2000-2001) *Good to Great: Why Some Companies Make the Leap … and Others Don’t* (HarperBusiness, 2001). Measuring sustained results over a period of 15 years, Collins identifies 11 well-established companies that made the nearly impossible leap from being “good” to being “great.” The most important factor in those transformations is what he calls Level 5 Leadership, “a paradoxical blend of personal humility and professional will.” Such leaders “channel their ego needs away from themselves and into the larger goal of building a great company.” (For more on the Level 5 Leadership framework, see “Climbing to Greatness with Jim Collins,” by Art Kleiner, *s+b*, Fourth Quarter 2001.)

Significantly, the CEOs of the great companies Collins identifies are not the high-profile celebrities whose faces regularly grace the covers of magazines. The only CEO he mentions who has anything amounting to a high profile is the late Ken Iverson of Nucor Steel (whose own book on leadership, *Plain Talk: Lessons from a Business Maverick* [John Wiley & Sons, 1997], we reviewed here last year). Instead, Collins says his leaders modestly work behind the scenes to build the capacities of their followers, getting them to “face the brutal facts” that they have to change their own behavior if the organization is to achieve its potential for greatness. As in the Heifetz model, Collins’s CEOs “lead with questions, not answers”; “engage in dialogue and debate, not coercion”; “conduct autopsies without blame”; and “build red flag mechanisms that turn [data] into information that cannot be ignored.” Collins admits he doesn’t know why these leaders developed the way they did, but he suspects it had to do with such factors as “self-reflection, conscious personal development, a mentor, a great teacher, loving parents, a significant life experience…” — which turn out to be the very developmental factors Bennis and Thomas identify.
In essence, the convincing body of data Collins amasses (with the help of a team of researchers) is consistent with the theories advanced by Bennis and Heifetz: The characteristics of the leaders Collins cites fit their models; their models explain the success of his examples. The overlay between his facts and their theories may not be perfect, but it is about as close as it’s possible to get when describing the complexity of human behavior. We suggest there is utility in reading these three books in conjunction with each other, because Collins provides the convincing examples missing in the other two works, and Bennis’s and Heifetz’s theories help readers fill in the blanks to explain why and how Collins’s great leaders got that way. Moreover, the findings of all three books about how leaders use data, rather than charisma, to get their followers to confront the “brutal facts of reality” squares with our own study about the characteristics of “yellow-light leadership.” (See “Yellow-Light Leadership: How the World’s Best Companies Manage Uncertainty,” s+t, Second Quarter 2002). Although no one has all the answers with regard to leadership effectiveness, if one adds up the many available bits and pieces of knowledge, a generally consistent pattern of behavior may come into view.

Getting Things Done

An even more fully developed picture of leadership emerges when the perspectives of retired Honeywell International Inc. chairman Larry Bossidy and consultant and professor Ram Charan are added to the mix. Their slim how-to manual, Execution: The Discipline of Getting Things Done (Crown Business, 2002), could just as well have been titled “Seven Behaviors of Highly Disciplined CEOs.” The behaviors include “know your people and your business,” “insist on realism,” “follow through,” and “expand people’s capabilities through coaching.” These would be no more than truisms if they weren’t fleshed out as they are here. Basing his writing on his practical experience, Bossidy walks us step by step through how to think about strategy, how to undertake a plant inspection, how to do a quarterly review, how to get the right people in the right jobs, and so on down the list of important executive activities. We ended up making pages of useful notes, and in discussions about the book with clients and colleagues, we noted they are doing the same.

Bossidy and Charan also identify three major CEO responsibilities: performing analysis, closing the gap between a company’s ambition and its actual perform-

ance, and, finally and especially, “getting things done.”

The secret to creating effective alignment of a company’s strategy, expectations, and people boils down to the CEO’s mastery of what Bossidy and Charan call “the social software of execution.” Given Bossidy’s reputation as one of America’s toughest bosses, what is striking here is his almost Socratic philosophy of execution. Instead of command and control, he describes a three-part systematic leadership process. The first part is careful and informed questioning; instead of telling people what to do, he says leaders challenge their comfortable assumptions. Next is follow-through; at the end of every meeting, a leader sends all participants a note summarizing what they agreed to do. Finally, accountability is reinforced by leaders who evaluate the extent to which their people make good on promises, and then reward them accordingly. Indeed, Bossidy and Charan are positively Bennis-like in telling the leader to “know thyself,” Heifetz-like in stressing the centrality of “expanding people’s capabilities,” and in step with Collins in “insisting on realism.”

Those similarities were unexpected. It is less surprising to find Bossidy and Jack Welch agreeing on practically everything. The two worked closely together for many years at GE, and the similarities between their philosophies and leadership behavior has long been noted by informed commentators. That said, Welch’s expansive and autobiographical Jack: Straight from the Gut (written with Business Week’s John A. Byrne, Warner Business Books, 2001) is quite unlike Bossidy’s short, impersonal, nitty-gritty handbook. Moreover, when analyzing the functions of the CEO, Welch starts with such “big picture” elements as strategy and bold “game changer” initiatives, whereas Bossidy starts with the details relating to systems and operations (they eventually meet in the middle). Given all that has been written about Welch and GE over the years, it should come as no surprise that there are no surprises in Jack. But what is different here is that we get to see some of Welch’s familiar management practices from his perspective and with the benefit of his hindsight. For example, he recalls how a participant at one of his storied Crotonville “workouts” challenged his oft-quoted strategic formula:

For nearly 15 years, I had been hammering away on the need to be No. 1 or No. 2 in every market. Now this class was telling me that one of my most fundamental ideas was holding us back.
I told them, “I love your idea!” Frankly, I also loved the self-confidence they had shoving it in my face…

Having a high share of a narrowly defined market may have felt good and looked great on a chart, but the class was right: We were getting boxed in with the existing strategy…

I took their idea and put it into my closing remarks at our annual officers meeting … I asked each of the businesses to redefine its markets and give us a page or two of “fresh thinking” on this.

Welch then relates the story of how managers of GE’s Power Systems took up his challenge: Previously, the division had defined itself into a low-growth corner with 63 percent of a $2.7 billion market in repairs and spares of its own products; as a result of Welch’s prod-ding, the managers then were able to create tremendous upside potential by redefining their position as only a 10 percent share of the total ($17 billion) market for power-plant maintenance. (See also “Strategy: What Jack Welch Learned from the Prussian Army,” page 3.) This anecdote illustrates several aspects of leadership Welch stresses in the book: relentless questioning and repetition of initiatives, leveraging the brainpower of the organization, frequent and thorough appraisals, dispelling self-delusion, and openness to ideas. It is also significant that the incident occurs at Crotonville because Welch stresses the practical applications of managerial development throughout his book in much the same way Bennis models the process in his new volume. Welch talks about selection, development, and assessment processes built around the “four Es” of GE leadership: “very high energy levels, the ability to energize others around common goals, the edge to make tough yes-or-no decisions, and finally, the ability to execute and deliver on promises.”

Here Welch is on track with Bossidy. Welch also offers a touch of Heifetz when he warns that bosses shouldn’t “pile on” subordinates who have just made big mistakes; instead, leaders should help followers learn from their errors. And he includes many ideas Collins would agree with, the most important of which is that a key role of chief executives is to rid their management teams of delusions about their businesses.

Yet Welch and Collins disagree on a few practical issues: Welch says he “never saw a business fail because it cut costs too quickly,” whereas Collins praises his 11 CEOs for their patience in introducing change at a pace followers can assimilate. Welch’s GE did not make the cut in Collins’s selection of “great” companies, although GE’s financial record was strong enough to keep it in the running with 19 other “good” companies until the third, next-to-last round. (AlliedSignal, where Bossidy served as CEO, was cut in the first round, as was Honeywell, where Bossidy also served briefly as CEO after a merger.)

We also note that not all of Collins’s 11 great companies sustained their “built to last” performance through the current recession and bear market, although nine of them fared quite well. Moreover, we suspect Welch and Bossidy might not have been honored to be ranked among the “Level 5 Leaders” whom Collins describes as “quiet, humble, modest, reserved, shy, gracious, mild-mannered, self-effacing, understated, did not believe their own clippings.” Instead, from the rather muscular way in which Welch and Bossidy describe themselves, they each sound more like the quintessential “Level 4 Effective Leader,” who, Collins writes, “catalyzes commitment to and vigorous pursuit of a clear and compelling vision, stimulating higher performance standards.”

Although there is growing consensus on what leaders do in terms of questioning, challenging, and developing followers, there is still considerable difference of opinion about the values and ultimate purposes of this important endeavor. Yet, on one key point, all our various authors are in complete accord: They say that great leaders draw lasting lessons from transforming events. So the $64,000 question for leaders today appears to be, What lessons are they learning, variously, from the high-tech meltdown, the prolonged recession, the events of September 11, 2001, and, especially, the recent spate of corporate governance scandals? If our authors are correct, the next generation of great leaders will be those who learned the most from these sobering experiences.

Bruce A. Pasternack [pasternack_bruce@bah.com] is a senior vice president with Booz Allen Hamilton in San Francisco. He is coauthor, with Albert J. Viscio, of The Centerless Corporation: A New Model for Transforming Your Organization for Growth and Prosperity (Simon & Schuster Inc., 1998).

James O’Toole [otoole_jim@bah.com] is research professor in the Center for Effective Organizations at the University of Southern California. His research and writings have been in the areas of political philosophy, planning, corporate culture, and leadership. He has written 13 books, including Leading Change: Overcoming the Ideology of Comfort and the Tyranny of Custom (Jossey-Bass Inc., 1995).
n 1965, a *Harvard Business Review* study of top-level executives pronounced that “in the case of ... women the barriers are so great that there is scarcely anything to study.” Now, nearly 40 years and a feminist revolution later, we have something to study, although it’s not what anyone expected in the heady years when it seemed equality might become law: Women account for a measly 6.2 percent of executives (chairman, vice chairman, CEO, COO, SEVP, EVP), according to a study conducted in 2000 by Catalyst, a New York–based business research group. What’s more, the pipeline isn’t about to disgorge even moderate numbers of women into these positions anytime soon: A whopping 92.7 percent of jobs that lead to top offices are held by men. Whether angry, resigned, matter-of-fact, or hopeful, businesswomen tend to use the same word to describe this rate of change: glacial.

A mountain of books have been written on the subject. Some are academic forays that attempt to tease apart the seemingly intractable root causes of the problem (it’s the culture, stupid!). But most are of the 10-steps/secrets-to-success variety (e.g., *Why Good Girls Don’t Get Ahead ... but Gutsy Girls Do: 9 Secrets Every Working Woman Must Know*, or *Secrets of Six-Figure Women: Surprising Strategies to Up Your Earnings and Change Your Life*). Useful as some of these books might be, they are limiting and deceptive; life simplified to bullet points is not life at all.

More illuminating and encouraging by far are autobiographies by businesswomen that extend readers the courtesy of being allowed to come to their own emotional and intellectual conclusions, and also give an understanding of various professions. The late newspaper chief Katharine Graham’s *Personal History* (Alfred A. Knopf Inc., 1997) is probably the outstanding example; its bestseller reception is indicative of readers’ hunger for stories that have atmosphere and depth, not bland “atta-girl” bromides.

Now we have two new crackerjack autobiographies by businesswomen to take their place by Graham’s: Muriel Siebert’s *Changing the Rules: Adventures of a Wall Street Maverick* (written with Aimee Lee Ball, Simon & Schuster Inc., Free Press, 2002) and Mary Wells Lawrence’s *A Big Life (in Advertising)* (Alfred A. Knopf Inc., 2002). Both books are richly detailed memoirs of working lives; personal lives figure hardly at all unless they interrupt life on the job, as was necessarily the case with Lawrence’s bouts with cancer. (“Memoir” is too soft and fussy a term to apply, perhaps, to these women’s books, especially that of Siebert,
who prefers Miss to Ms. but makes no bones about enjoying her toughness.) From page one the reader is immersed in the heady histories of, respectively, Wall Street and Madison Avenue. Neither book is overwhelmingly didactic, although Muriel Siebert’s publisher has distractingly decorated the text with the author’s trademark plainspoken observations — “Don’t get into a pissing contest with a skunk” … “Write down the best thing that could happen and the worst; if you are not willing to accept the worst, don’t do it” … “There is no such thing as a lousy morning. You are not owed today” — probably from the fear that an autobiography steeped in financial lore might not find an audience.

**Legendary Ladies**

Muriel Siebert — Mickie, as she is known — has a number of significant firsts to her name: the first woman to have a seat on the New York Stock Exchange, the first woman to own a publicly traded national brokerage company, the first woman to be appointed New York State’s superintendent of banking. She arrived in New York City in 1954 with $500 in her pocket and headed for the Street because, the year before, on vacation from college, she had visited the stock exchange floor and noted, “Now, this is exciting.” On that same trip she was given a piece of souvenir ticker tape that read, “Welcome to the NYSE, Muriel Siebert.” As she dryly remarks, looking back on her career, “I wasn’t so welcome after all.”

From the beginning of Siebert’s professional life — she started as a securities analyst — she faced monumental prejudice. Most Wall Street firms hired women only in the capacity of secretary, and the few that allowed women to stray beyond steno pads paid them about half of what men earned for the same work. However, the ill will she experienced in those early years was nothing compared with the almighty ruckus that arose in 1967 when Siebert decided to try for a seat on the exchange. Nine of the 10 men she asked to sponsor her “ran screaming in the other direction, at least metaphorically.” Then she was refused a loan from Morgan Guaranty to buy the seat until the exchange admitted her, and the exchange wouldn’t admit her until she had the loan; these were conditions never asked of a man. (When Siebert became superintendent of banking in 1977, she oversaw 500 banks, one of which was Morgan Guaranty. A moment to savor.) In the end, Chase gave her the required $445,000 against stock she owned, although that bank had a bet going that it would never have to make the loan. Amazingly, her victory had no immediate impact — it wasn’t until 1977 that Siebert was joined on the floor by another woman. As she puts it, “For ten years … the NYSE consisted of 1,365 men and me.” Glacial, indeed.

Like Mickie Siebert, Mary Wells Lawrence is a legend in her profession. She also came to New York City in the ’50s, getting her start as a copywriter at Bamberger’s and then Macy’s. After a stint at the advertising agency behemoth McCann Erickson, she went to the smaller, singular firm of Doyle Dane Bernbach, where breaking-the-mold creativity was the order of the day. After seven years at DDB — “heaven on earth” — she briefly rejoined McCann before founding Wells Rich Greene, which quickly gained a reputation for hip, humorous advertising. With such clients as Philip Morris, Procter & Gamble, American Motors, Braniff, TWA, and Continental, she was the only woman of her era to head an agency with big-budget accounts. When Lawrence took her company public in 1971, she became the first woman CEO to be listed on the NYSE. While the male chauvinism she encountered was not as ludicrous and pervasive as the Wall Street variety, she remembers that after she landed the hotly contested TWA account, “Madison Avenue’s old guard decided women were dangerous to the advertising community and that I was not only an arriviste but the queen of black widow spiders.” A cute blonde (her description), she is remembered as the “it” girl of her time. An it girl with a serious career.

**Passionate, Positive, and Lucky**

One can’t help but ask why Siebert and Lawrence were able to succeed when so many women either gave up or didn’t try at all. On the face of it, they would seem to have little in common. To be sure, both are women of considerable intelligence and exceptional tenacity, but their personalities couldn’t be more different. In line with her profession, Mickie Siebert is steady, analytic,
and sardonic. In line with hers, Mary Lawrence is vivacious, intuitive, prone to contradiction, and a favorer of breathless run-on sentences studded with words like “sizzle,” “sparkle,” and “shimmer.” One can’t imagine Mickie Siebert kicking off her shoes at the end of the day and dancing alone to Sly and the Family Stone pounding as loudly as possible on the record player, as Mary Lawrence endearingly owns up to doing to free herself of stress. (“People in the building averted their eyes in the elevator. God knows what they thought.”)

Yet Siebert and Lawrence share some traits that go a long way toward explaining why they were able to persevere and triumph. These are obvious qualities, yet they are often overlooked in accounts of successful careers, and they also are qualities of which businesswomen, and men, for that matter, might be mindful.

First, what shines through in these narratives is the passion — no other word for it — that Siebert and Lawrence have for their jobs. They found professions that perfectly matched their talents and temperaments, no small thing. “From the beginning the recondite world of figures seemed like second nature to me,” remembers Siebert. “I could look at a page of numbers and they lit up like a Broadway marquee.” Lawrence thought of the dresses and shoes she was touting at Macy’s as “transcendent offerings.” She felt the same way later about Alka-Seltzer and Midas mufflers. “The unvarnished truth,” she says of the nature of her ambition, “is that I wasn’t looking for the man of my dreams, I was looking for the job of my dreams, I was in love with advertising.” Siebert goes to the heart of the matter when she notes that “a risk–reward ratio is important, but so is an aggravation–satisfaction ratio.” Satisfaction with their jobs far outweighed the aggravation. Both of them, happy as sparrows in a birdbath.

Next, Siebert and Lawrence readily acknowledge the role luck played in their careers. They were lucky to land in the right career, but lucky also to be in their industries at a time of upheaval. Mickie Siebert was able to take advantage of Wall Street’s May Day — May 1, 1975, when brokerages were ordered to stop fixing the commissions on trades and instead offer competitive rates. She saw a future in discount brokerage — not as obvious then as it is now — and ran with it. For her part, Mary Lawrence came to Madison Avenue just as television advertising was coming into its own. In that medium, she was able to fully utilize a special talent for giving theatrical shape to people’s dreams.

As shrewd and quick as they were intelligent, Siebert and Lawrence turned luck into opportunity. They were able to see the earth was shifting. Historically, it’s in periods of change that women make gains; men are too distracted, or not able to discern the direction that the change is taking. For example, at the beginning of her career, Siebert was given aviation to cover because the senior analyst thought there was no future in it; he was a railway man. This was serendipity, but, again, she ran with it, making it her specialty and later becoming the first woman to belong to the prestigious Wings Club. The aviation industry, entering a golden age and ripe with opportunity, was also pivotal in Mary Lawrence’s career. Some of the largest airlines were her clients at one time or another, and she married Harding Lawrence, the charismatic head of Braniff International.

Last, both women are blessed with sunny temperaments. Mickie Siebert describes herself, with winning simplicity, as “smart, happy, and lucky.” We tend to think of driven people as moody, dark, but Siebert and Lawrence, while intensely focused, don’t make heavy weather of an obstacle. They puzzle it through, tough it out, keep on going. No climb to the top is a cakewalk; the secret, if the careers of Siebert and Lawrence can teach us anything, is not to be corroded by bitterness, consumed by festering rage, even when the odds are stacked against you, as the 6.2 percent statistic suggests is the case for women.

This is not to imply that women don’t get fighting mad — and it is not to minimize the obstacles. “For almost fifty years, I’ve been fighting, dodging and trying to derail the deeply ingrained misogyny of the financial community,” writes Siebert. She believes this will change if...
women who get to the top mentor and in other ways assist their female colleagues, although she points to a catch-22 similar to the one she faced with Morgan Guaranty and the stock exchange: Women first have to get to the top.

In finance, Siebert argues, there is the unique problem of “the golden muzzle”: high compensation that makes being a token woman attractive. “The real issue,” she writes, hitting the nail on the head, “is being able to have meaningful, decision-making roles.” Women, she says — and members of all underrepresented groups, for that matter — shouldn’t become isolated or turn their backs on each other. Lacking access to the informal networks that men use for bonding and for communicating inside-track information, they need to establish their own. That way lies strength. That way lies the future.

Mary Lawrence is more ambivalent. She would see that 6.2 percent statistic as the result of women either thinking small and limiting their ambitions or being repulsed by the “infernal loneliness” of life at the top. The former gets her particularly steamed: “I read with disappointment that polls report 60 percent or more of … women in America prefer not to work outside the home…. So now I’m worrying that women are born with bound feet in their brains. Was it Freud who said biology is destiny? I think you want to stretch and then going out and doing it.

Reading Lawrence, one almost believes it’s as simple as wanting to stretch and then going out and doing it. Lawrence always did have, as Bill Bernbach, her boss at Doyle Dane Bernbach, said, “a marvelous ability to talk anyone into anything.”

Kate Jennings (kjennings@worldnet.att.net) is the author of Moral Hazard: A Novel (HarperCollins, Fourth Estate, 2002), which is based on her experiences as a speechwriter on Wall Street in the 1990s. She is also the author of the critically acclaimed novel Snake (Back Bay Books, 1999). She has written for the New York Times and other leading publications.

GLOBALIZATION — the process by which the world is becoming increasingly integrated — has transformed economies and societies and created vast new opportunities to improve standards of living, especially for people in developing countries. Yet it has also produced a powerful wave of opposition, most evident in the large and sometimes violent protests that have recently accompanied routine meetings of trade officials and economists around the world.

Some of the forces that have led to globalization, such as advances in communication and transportation, are so pervasive that they are unlikely to be slowed (much less defeated) by globalization’s opponents. But the dynamic that lies at the heart of globalization — the movement toward free trade among nations in goods, services, and capital — is more easily attacked.

Antiglobalization critics have lobbied successfully to make continued trade liberalization conditional upon the inclusion of labor and environmental protection concerns in the world trade agenda. The roles of the international economic institutions that have the most influence on global trade — the International Monetary Fund, the World Bank, and the World Trade
Organization — have been sharply questioned. And lobbyists for special interests have scored victories against free trade, notably in the U.S., where the current administration imposed punitive tariffs against foreign steelmakers earlier this year. This will likely lead to more, rather than less, protectionism around the world. As the 21st century opens, globalization, which seemed both relentless and inevitable a decade ago, has arrived at an inflection point, with its future path in doubt.

An understanding of the core arguments of the opposition to globalization is crucial in dealing with it — as a matter of overall corporate policy, as a practical matter in addressing global competition everywhere, and in planning and conducting operations in developing markets. The future of globalization is of particular interest to managers and business strategists of multinational corporations. Although a day-to-day check of the news and business pages of your newspaper provides an instant information update (the globalization controversy plays in both newspaper sections), a deeper understanding of the story demands a fuller overview of the past and present, as well as the outlook for the future.

For Free Trade
The best and most straightforward case for the benefits of globalization and open markets is made by Douglas A. Irwin, an economics professor at Dartmouth College. In *Free Trade under Fire* (Princeton University Press, 2002), Irwin makes the classic economic case for the benefits of free trade — an argument that dates back 200 years to the work of British economists Adam Smith and David Ricardo and one that has had enormous influence. But he also reviews recent empirical research conducted by academic economists, much of which is too technical to be accessible to noneconomists. Still, the verdict is clear: Expanded trade leads to higher productivity, more investment, and improved living standards, both in developed countries and in the developing world.

Irwin also tackles the antiglobalist critique that free trade destroys jobs, a perspective that resonates forcefully with labor unions, the general public, and politicians. However, he shows that efforts to protect domestic workers tend to reduce a nation’s exports, and thus wind up destroying jobs in other industries. *Free Trade under Fire* includes a well-researched history of U.S. policy and the world trading system over the last 50 years, a review of the role and history of the World Trade Organization and its predecessors, and an investigation of the recent attempts by critics of globalization to use trade negotiations to accomplish larger social goals. So far we’ve been lucky, Irwin concludes: Opposition to the liberalization of trade has been surprisingly weak and ineffectual. In the future, however, he warns, the forces opposing globalization are likely to gain in strength and momentum, making it more difficult to sustain a freer trading system.

Brink Lindsey’s *Against the Dead Hand: The Uncertain Future of Global Capitalism* (The Free Press, 2002), advances a more critical perspective on the implications of globalization. Lindsey argues that although globalization offers benefits, it also creates new problems, such as the erosion of democratic values and the concentration of power in the hands of a few multinational corporations. He contends that the benefits of globalization must be weighed against the costs, which include environmental degradation, labor exploitation, and cultural homogenization.

In *Globalization and Its Discontents* (Norton, 2000), Joseph Stiglitz offers a similarly cautionary view of globalization. Stiglitz, a Nobel laureate in economics, argues that the benefits of globalization have been unevenly distributed, with the wealthy benefiting the most while the poor are left behind. He calls for a more equitable distribution of the benefits of globalization through international cooperation and regulation.

These books provide a comprehensive analysis of the issues surrounding globalization, offering both a critique and a defense of the economic benefits. They provide important insights into the future of globalization and the challenges that lie ahead.
Struggle for Global Capitalism (John Wiley & Sons, 2001) is the most intellectually stimulating of all the recent books on globalization. Lindsey articulates a fervent defense of open markets at the same time he poses serious concerns about their future. Director of the libertarian Cato Institute’s Center for Trade Policy Studies, a Washington think tank, Lindsey worries that too many people assume that the continuation of globalization is inevitable. He instead believes that globalization is in its infancy and will be threatened by a series of childhood maladies that could include national and regional financial crises, protectionist backlashes, and antiglobalization political movements.

Lindsey recasts the history of trade and commerce over the past 150 years in a highly original way that will intrigue anyone involved in international business. His thesis is that the first great wave of globalization, which lasted until World War I, arose both because of the strength of the intellectual argument in its favor and because of the technological innovations of the Industrial Revolution. But as early as the 1880s, he finds the beginnings of what he calls “the Industrial Counterrevolution.” Starting with the writings of Karl Marx and the rise of German state socialism under Otto von Bismarck, the political opposition to free trade and globalization mounted in the late 19th and early 20th centuries, taking the form of protectionism, imperialism, and militarism.

It all culminated in World War I, which, Lindsey writes, “provided both the means and motive for the collectivist spasm that followed.” In the social and economic chaos that gripped the world from the start of World War I to the end of World War II, the earlier progress toward globalization, writes Lindsey, “was interrupted, its achievements demolished.”

In his view, the creation of the modern multilateral financial institutions of the international economy in the postwar years, along with the championing of free trade by the United States, slowly recreated the conditions that enable globalization, but it was a long road back. Lindsey notes that world merchandise trade as a percentage of world output has been estimated at 11.9 percent in 1913 — a level of export performance that wasn’t matched again until the 1970s. And still, the ideas and movements that produced the Industrial Counterrevolution live on, he says, to distort and frustrate the world’s economic development. This is the “dead hand” of his title.

Most of the ills commonly blamed on globalization, he argues, are caused by “the continued bulking presence of antimarket policies and institutions” in many of the developing and emerging market countries. The real blame for Russia’s problems, for instance, should be placed on such matters as the efforts of its federal and regional governments to prop up moribund industrial enterprises from the Communist era. Such explicit subsidies, the author notes, have been as high as 8 to 10 percent of GDP in recent years. All over the Third World, protectionism is still strong, with tariff rates averaging 13.3 percent in developing countries, compared with rates of 2.6 percent in the industrialized nations.

Yet Lindsey concludes Against the Dead Hand optimistically: “For a century the world was enthralled by the false promises of the Industrial Counterrevolution; the chains of misplaced faith have now been broken, and the revival of globalization is one consequence. The present era, uncertain and trying as it sometimes may be, is thus a time of deliverance. Furthermore, there is good reason to believe that we are on our way to somewhere better.”

Tough Critics

The depth and breadth of the opposition to globalization, and the conviction of those who oppose it, are best captured by an older volume, The Case Against the Global Economy — and for a Turn Toward the Local (University of California Press, 1996), edited by Jerry Mander and Edward Goldsmith. Containing 43 essays in more than 500 pages, the book surveys the antitechnological, anticapitalist, pro-labor, and environmentalist critiques of the globalization agenda. Just about the only constituency not represented are the anarchists, those black-clad provocateurs who have led the violent protests at world trade meetings in Seattle, Genoa, and elsewhere, and who have probably done more than anyone else to call attention to the antiglobalist position.

Essays on such subjects as the perils of deregulation, the problems of corporate governance in an interconnected world, environmental concerns, and the social disruptions caused by the pace and intensity of economic change raise issues that even globalization’s defenders can’t ignore.

A recent and more provocative critique is Globalization and Its Discontents (W.W. Norton & Company, 2002), by Joseph E. Stiglitz. A Columbia University economics professor, former World Bank official, and Clinton administration advisor, Stiglitz won
the 2001 Nobel Prize in economics for his research on the imperfections of markets. His prominence should ensure that the book gains an audience, and it will probably be widely quoted by antiglobalists in developing countries.

Although Stiglitz says he believes that globalization “can be a force for good and that it has the potential [author’s emphasis] to enrich everyone in the world, particularly the poor,” he is harshly critical of globalization in practice. His years in Washington, he says, gave him a firsthand view of “the devastating effect that globalization can have on developing countries,” and left him convinced that it needs to be “radically rethought.”

Stiglitz’s main complaints are with the International Monetary Fund (IMF) and the U.S. government, particularly the Department of the Treasury, and the way these institutions have directed international economic policy over the past decade. Much of the book is devoted to this criticism. Its tone is so vituperative that a fitting subtitle for the book would have been How Washington Is Impoverishing the Third World and Why It Must Be Stopped.

Although many economists — from both ends of the political spectrum — have criticized the way the IMF and the U.S. Treasury handled the 1990s economic crises in East Asia and Russia, few in the mainstream of academia are as critical as Stiglitz. He strongly disapproves of the IMF’s and Treasury’s insistence that developing nations keep government budgets under control, reform their financial markets, and open their markets to world trade. A major problem, in his view, is that international economic institutions are dominated “not just by the wealthiest industrial countries but by the commercial and financial interests in those countries, and the policies of the institutions naturally reflect this.”

His attack relies on a straw man he calls “the Washington Consensus.” In Stiglitz’s argument, the problem is a right-wing doctrine of “market fundamentalism,” in which, by assumption, “markets work perfectly” and unemployment can be blamed only on “greedy unions and politicians interfering with the working of free markets.”

But this straw man is flawed. Although there are indeed market fundamentalists who hold such views (the same kind of people who disfavor trade unions and public libraries), few people familiar with the IMF and the Clinton Treasury would agree that these views were reflected at those institutions. The senior economist at the IMF during the Clinton years was Stanley Fischer, a highly respected former professor at the Massachusetts Institute of Technology who is coauthor of one of the standard textbooks on macroeconomics. At the Treasury, the most influential economist was Lawrence Summers, a former Harvard University professor (now the university’s president) who served in senior roles from 1993 onward and was appointed secretary of the Treasury in 1999. Summers is, in fact, a liberal Democrat, and an economist, whose views reflect the collective views of mainstream American economics, perhaps as much as any single individual’s ever have.

Without a straw man, these charges against the Washington establishment lose their force. What really appears to be going on is simple: Stiglitz disagreed fundamentally with the policies of the IMF and Treasury in the 1990s, but his was the minority view, and he lost. He pines for the Keynesian economic policies that held sway in the 1960s, the kind of programs that “emphasized market failures and the role for government in job creation.” Those policies were abandoned because policymakers concluded they had never worked well.

Stiglitz’s ideas for reform include shifting more power from within the international financial institutions to the developing nations themselves, which is likely to be resisted by the governments of those countries. However, he offers a number of practical ideas for reform that may be more achievable, including: allowing developing nations more leeway to intervene in their capital markets to reduce instability; reforming bankruptcy law to make greater allowances for commercial bankruptcies resulting from macroeconomic disturbances; improving banking regulations in the developed and developing world to lead to more effective cross-border lending and less instability; and better managing risk so...
that the large developing nations would assume some of the currency risks that have produced severe difficulties for small nations such as Thailand.

An Idiosyncratic Soros

A more idiosyncratic and interesting critique of the world economic order comes from George Soros, the well-known hedge fund operator and philanthropist. George Soros on Globalization (Public Affairs, 2002), like the Stiglitz book, finds fault with institutions such as the IMF and also complains about the ideas of “market fundamentalists,” but Soros’s critique is more evenhanded.

The author accepts that policymakers have been trying to do the best they can with the knowledge and techniques available. He is more modest than Stiglitz in his prescriptions, taking it as a given that wholesale policy change at these institutions is unlikely. Instead, he suggests some practical reforms, such as allowing the central banks of developed nations to accept treasury securities from selected developing countries that are experiencing liquidity problems. Another of his reforms is his idea for making international institutions such as the World Bank less dependent on their shareholder governments: He recommends that the institutions’ directors be chosen on the basis of their personal and professional qualifications, appointed for fixed terms, and given more independence, which is the way that governors of the U.S. Federal Reserve are selected.

But Soros’s most powerful argument is exceedingly idealistic. Although he counts himself “an ardent supporter of globalization,” he believes that it can continue and succeed only if the industrialized nations — especially the U.S. — vastly increase the amount of foreign aid they offer to the developing world. He is not a Pollyanna about the chances of this happening. Foreign aid is unpopular, he notes, because it has produced such poor results in the past. He offers ideas to improve its efficiency that are based on his own experience as a philanthropist. Instead of foreign aid being doled out on a government-to-government basis, with the donors retaining control over the aid they provide, Soros recommends that foreign aid be managed by boards composed of nationals of the recipient countries, who are empowered to work with the local government when they can and independently when they cannot.

One way to pay for increased foreign aid, he suggests, is to enact a tax on foreign exchange trading. Supporters of such a tax in the past have claimed it could reduce volatility in the foreign exchange market. Soros disagrees, but he supports the idea as a convenient way to simply raise the money.

Soros theorizes that if foreign aid accomplished more, Americans would be more willing to pay for it. One encouraging sign, he notes, is the success of the Jubilee 2000 movement, a network of activists and church groups from more than 60 nations that has encouraged industrialized nations to forgive the debts of the poorest countries — something not considered possible 10 years ago.

Soros’s book is somewhat disorganized. It was finished just before September 11 last year, and he then unwisely decided to tack on a muddled peroration about geopolitics. But his views on the international economy and globalization are heartfelt, and his ideas on ways to improve the world are invariably interesting and original.

Role in the Debate

Those who live and work in the world of international business and finance should hope that those optimistic about globalization’s future are right. As these new titles make clear, there are likely to be many more battles and setbacks in the effort to create a more open world economic system. Especially against the awful backdrop of recent world events — terrorism, regional conflict, and even the possibility of nuclear war — it is not hard to envision a future in which more of the attacks on globalization succeed.

Still, the debate is wide open, and in need of broad participation and understanding on the part of business leaders. Anybody who works for or with multinational corporations should pay close attention to both the champions and the critics of globalization.

Rob Norton [robertnorton@earthlink.net] writes the economics column “Not So Fast” in Fortune magazine, where he worked for 15 years, lastly as executive editor. Mr. Norton was director of knowledge development at Nua Ltd., an Irish software firm. He is coauthor of The Web Content Style Guide and has written recently for Business 2.0, Corporate Board Member, and the Washington Post.
The launch of the euro marked for many the emergence of a new Europe. In fact, it was simply the most outward and visible sign of a long-term process of integration in the region. Since 1992, reforms undertaken by the European Union (E.U.) have been aimed at creating a single market — united by common regulation, taxation, tariffs, and the free movement of goods and people across national borders. Global businesses have (often) worked toward the same ends, rolling technologies and brands across borders and building pan-European organizations to manage them.

Capitalism, a major force of change in Europe, which brought about the rise of former U.K. prime minister Margaret Thatcher and the fall of the Berlin Wall, is a less tangible but probably more powerful and pervasive influence than single-market political and economic reforms. True, state-owned industries have been privatized and protected industries opened to competition. But the effect of unfettered market competition is even broader. As Richard Roberts and David Kynaston write in *City State: How the Markets Came to Rule Our World* (Profile Books, 2001), their history of the last 20 years of London’s financial markets, political debate has given way to “‘market populism,’ the axiomatic assumption that the will of the people and the will of the market are identical.”

On the surface, the new Europe that has resulted from all these changes looks more like the U.S. than it ever has before. Witness: a single market, a single currency; public regulation and private capital; individual initiative and personal responsibility. Shops, newstands, and television programs are full of names familiar to Americans. Communication is quick and cheap. Credit cards are accepted, and cash is available from ATMs. The English language can be used for most transactions in most countries.

But appearances are deceiving. Europe is, in reality, any-
thing but a single market. And it certainly isn’t the U.S. From a distance, one can forget that (with the notable exception of France) most European states are federations: Germany, Switzerland, Italy, Spain, Belgium, and the United Kingdom. Hugo Young writes in This Blessed Plot: Britain and Europe from Churchill to Blair (Overlook Press, 1999), his history of the E.U. seen through British eyes, “Nationalism remains a force, perhaps the strongest force among people who were given any encouragement to express it.”

The rise of the E.U. and the end of East-West tensions have diminished the role of traditional political boundaries, allowing this regionalism and nationalism to resurface. Even within more homogeneous countries, regional differences translate into distinct values and cultures, and Europe has neither the internal migration nor the national media that stir America’s melting pot. From biscuits to boardrooms, distinct local tastes influence every aspect of business.

Managing Complexity

The challenge of managing in the new Europe is to come to terms with its growing complexity — its increasing fragmentation at all levels: political, social, and cultural. An American executive, even the most ardent Europhile, cannot hope to understand all of Europe’s rich diversity. The key is to understand that it is diverse and then to create and lead the businesses and organizations to succeed in that diversity.

No one has written the definitive guidebook to managing in the new Europe. It’s probably impossible, as the dual forces of integration and populism are still reshaping the markets. It’s also unnecessary. A growing number of executives are trained to operate regionally or globally by the world’s leading business schools. And English has long been the lingua franca of the worlds of science and technology. Only accounting and human resources/labor relations remain arcane national arts requiring an expert native guide. To be sure, no book can prepare you for the subjective judgments of German reserve accounting or the mind-numbing complexity of dismissing Italian staff members. Still, any number of recent books collectively present a variety of guidance on developing strategy and managing in the new Europe.

Some are quite literary, presenting vivid portraits of individual country cultures; others offer more practical advice about managing in them.

As always, history is one of the best guides to the future. In The Living Company: Habits for Survival in a Turbulent Business Environment (Harvard Business School Press, 1997), former Royal Dutch/Shell Group of Companies executive Arie de Geus studied organizations that have endured for centuries and concluded they “combined sensitivity to their environment with a strong sense of identity.” This allowed them to engage with and adapt to local markets. Indeed, micromarketing — appealing to distinct subcultures and addressing segments of one — is the mantra of the modern marketer, which is certainly as true in Europe as it is in the U.S. (See “Arie de Geus: The Thought Leader Interview,” s+b, Second Quarter 2001.)

De Geus’s conclusions are confirmed by recent cautionary lessons. MTV initially launched an American-dominated European channel, only to lose share in Germany to VIVA, the local offer. Euro Disneyland was denounced by the French as a “cultural Chernobyl.” Despite its popularity with consumers, McDonald’s is reviled as the ugly face of globalization. Monsanto’s field trials of genetically engineered crops are still being challenged as a threat to the English countryside.

By combining sensitivity and identity, MTV and Euro Disneyland have recovered. MTV now has an effective blend of local and global; it’s unmistakably German, Italian, and British, as well as unmistakably MTV. Euro Disneyland was relaunched in 1994 as Disneyland Paris (and is now called Disneyland Resort Paris), with wine and better food available in the now-popular park.

Hugo Young’s This Blessed Plot captures the complex interaction of forces and personalities that shaped today’s political Europe. What is more important, he argues, is that the forces for integration are actually fading. At its start, European integration was “the product of external influences … Moscow driving Western Europe together for its security, Washington encouraging this process as a precondition of the Marshall Aid that rescued Europe’s economies.” Politicians, whose motives ranged from military stability to personal achievement, carried it forward. Local considerations were as important as the grand design. Among many, but not all, there was a genuine desire for cultural and social as well as political and economic integration. However, with the end of the Cold War, “Europe, with the fiery exception of EMU [European Monetary Union], looked as though it was cooling down to an atmosphere dominated by compromise and endless, boring, relatively un inflationary pragmatism.” The
Global Influences

The cultural changes — and the changes in the cultures of business — are much greater in the U.K. than on the Continent. Great Britain has always been ambivalent about Europe. From Churchill onward, its politicians have tried to straddle three worlds: the Continent, the Commonwealth, and the Atlantic alliance. As the City of London became the world’s top international financial center, it moved sharply away from the Continent and the Commonwealth. The English language and a history of global trading were important advantages, but the revolution was triggered by deregulation, free exchange, and limits on the power of unions, as well as improving communications and transportation. Walter Wriston, the former Citicorp chairman and CEO, is quoted in City State, “Money only goes where it is wanted, and only stays where it is well treated.” And it was treated better, sooner in London than anywhere else in Europe.

The City is changing Britain. At one level, it has made London one of the most global of cities. Roberts and Kynaston write, “The foreign ownership of much of the City has given rise to comparisons with the Wimbledon championship: a tournament hosted by Britain but dominated by foreign players.” At a deeper level, the commitment to market populism and the acceptance of its implications are changing the very fabric of the nation, they argue. “There have been social, cultural and even moral ramifications: upon welfare and social harmony; upon outlooks and horizons; and upon values and ambitions.” (It is this sort of insight that makes City State my book of the year for anyone seeking to understand the new Europe.)

These changes are distancing Britain from Europe, socially and culturally as well as politically. Adam Gopnik explains in Paris to the Moon (Random House, 2000), “by 1995 … London, of all places, had become the town where people went to see new art and taste new cooking. For the first time in modern history it was actually possible to live in Paris for comfort and bourgeois security and travel to London for food and sex.”

Gopnik’s Paris to the Moon, a modern-day Innocents Abroad, is a good beginner’s guide to the practical realities of cultural differences. But it also shows the response to globalization of countries that are highly protective of their culture. His experiences, both in daily life and in reporting on France’s politics, confirm that “in the last five years of the century, as the world has become, by popular report, more ‘globalized’ than it has ever been before, France has become more different… From the kind of sympathy that labor unions get from their public to the length of time you take to eat lunch, the way it’s done in Paris now is not the way it’s done in Adelaide or Toronto or Los Angeles or Tempe or Hong Kong.”

While the writing is lovely, the judgmental tone and emotional distance of Paris to the Moon leave it unsatisfying. In contrast, Tim Parks’s A Season with Verona: Travels around Italy in Search of Illusion, National Character, and... Goals! (Arcade Publishing, 2002) is neither distant nor judgmental. Parks simply immerses himself in Italy and describes what he sees. Having lived and taught there for 20 years, he spent a full year following Verona’s football (i.e., soccer) team as it fought to stay in competition. His is a fan’s-eye view of Italy: the small tight community of fans in the curva; the cities’ historical animosities and linguistic distances; the interplay of politics, religion, business, and sport. In particular, he wrestles with the issues of identity, immigration, and racism, the new highly volatile forces in European politics. But the author is most useful to business readers because he takes us out of the homogenized global culture of international finance where most CEOs live.

Although a new and different Europe is emerging, the challenges of managing cultural diversity remain the same. Fons Trompenaars and Charles Hampden-Turner are the acknowledged masters of understanding and managing the impact of cultural differences, and Riding the Waves of Culture: Understanding Diversity in Global Business (McGraw-Hill, 1997) is a fine introduction to their thinking. Their thesis is simple: “There are, indeed, many products and services becoming common to world markets. What is important to consider, however, is not
what they are and where they are found physically, but what they mean to the people in each culture…. If business people want to gain understanding of and allegiance to their corporate goals, policies, products, or services wherever they are doing business, they must understand what those and other aspects of management mean in different cultures.” Trompenaars and Hampden-Turner characterize cultures in terms of attitudes toward relationships, time, activities, nature, and humanity. Having categorized and embraced these fundamental differences, they devote the bulk of the book to practical tips on how to reconcile the seemingly unresolvable differences along these dimensions.

The authors conclude that there is no single way to do business and that successful organizations recognize and adapt, ending where Arie de Geus began. As fewer companies work in environments they control, de Geus argues, “continuous, fundamental changes in the external world — a turbulent business environment — require continuous management for change in the company. This means making continuous fundamental changes in the internal structures of the organisation.” Every successful company “managed to effect its dramatic changes without sacrificing its corporate identity or corporate life in the process” (author’s emphasis).

Politics and Pastimes

A food guide might not seem like essential reading for a global manager, but there are two reasons to recommend Patricia Wells’s *The Food Lover’s Guide to France* (Workman Publishing Co., 1987). First, she addresses the basic questions of Europeanization. “I searched for answers to two basic questions…. How, in this homogenized world, has France managed to retain its undisputed role as the maker, the shipper, the ruler of Western cuisine … [and] can all this continue?”

With a journalist’s rigor, she records in detail France’s regional differences and how passionate individuals reflect them in local cuisine. In doing so, she also makes clear France’s emotional commitment to the local farmer and artisan producer — which continues to cause difficulties for the E.U.’s common agricultural policy.

The second reason to read Wells’s book is much more important. In more than 25 years of doing transatlantic business, I’ve never seen an American executive succeed who didn’t enjoy Europe or find pleasure in simply being here. I’ve known such businesspeople to climb mountains, visit bookshops, attend operas, or, most often, eat and drink. These interests draw them out of their hotels to engage the local milieu. And their excitement is transmitted to the organization. Wells’s prose will lure you into a *patisserie* in Provence or a *fromagerie* in Normandy, making the diversity of France come alive.

But no single book can capture the many markets and cultures in Europe. The best volumes span politics, society, and management. For each discussed here, there is another equally good one, addressing the same issues in another country. Just as Patricia Wells is a wonderful guide to French food and culture, Marcella Hazan has a mouth-wateringly informative perspective about Italy. And Adam Gopnik’s *Paris to the Moon* is no more or less revealing than Hubert Védrine’s *France in an Age of Globalization* (Brookings Institute Press, 2001). Tim Park’s *A Season with Verona* uses sports (specifically soccer) as a window into culture and society. Nick Hornby’s *Fever Pitch* (Victor Gollancz Ltd., 1992), Jimmy Burns’s *Barca: A People’s Passion* (Trafalgar Square, 1999), and Simon Kuper’s *Football Against the Enemy* (Orion Books, 1996) use the same sports vehicle to provide insights into the U.K., the Catalan region of Spain, and the whole of Western Europe, respectively.

The wide variety of books about Europe’s many subcultures is ultimately just another affirmation that even with forces of unity, the new Europe is not, nor will it ever be, a single Europe. (The euro may, in retrospect, be seen as the high-water mark of integration.) Jean Monnet, the founder of the European Community, may have anticipated this. He is quoted by Fons Trompenaars as saying, “If I were again facing the challenge to integrate Europe, I would probably start with culture.” However, the creators of the E.U. did start with politics, leaving culture an unchecked, equally powerful force shaping a Europe that is richer for retaining its diversity.

David Newkirk (newkirk_david@bah.com) is a senior vice president with Booz Allen Hamilton in London, specializing in strategy for global companies. His career has spanned the Atlantic since the ’70s, as he has been a student, a corporate executive, and a consultant.
Most business biographies are boring, telling tales of past careers and deals done long ago. Few let us into the real secrets of the life of their subject or the keys to their success. Not Francesco di Marco Datini, 1335–1410, by Iris Origo (Alfred A. Knopf Inc., 1957; David R. Godine Inc., 2002), although it is about the life of someone whom few, if any, will have heard of.

That someone, Francesco di Marco Datini, died nearly 600 years ago, in Prato, near Florence in Italy. You can still see his statue in the main square there, justifiably so, since it was to him that the little town of Prato owed the foundation of her riches.

He would, today, be just another name, a rich businessman of the early Renaissance, were it not for one fact — he kept all the letters he had ever written, to his managers, his wife, and his best friends, along with all his business files, and he left them in his house.

Four hundred and sixty years later, a few learned citizens of Prato found them there, in dusty sacks hidden underneath the stairs. There were some 500 ledgers and account books, about 300 deeds of partnership, insurance policies, bills of exchange, and checks, and, most intriguing of all, some 140,000 letters, of which 11,000 belonged to his personal and private correspondence with family and friends and the rest, in 503 files, to his business.

Historic Treasures
It was a treasure trove, and Iris Origo, an Anglo-American social historian married to an Italian aristocrat,
plunged in and became immersed in it. Few biographers in this new age of the telephone and e-mail will have such riches to draw on, and few businesspeople would, today, want to preserve their private, and often indiscreet, conversations with their wife or husband and their close friends, even if they could.

Francesco Datini, however, wrote to his wife on most days that he was away from her, which was much of the time, and kept his letters and her replies. Furthermore, in order to maintain control of his international business, he would write every week to the managers of each of his branches. Veritable Bibles, he called these letters; “and I always say I will be brief but then I write a whole psalter!” What we do today by e-mail and telephone, he had to do by personal mail.

Francesco Datini was a global merchant, trading mainly in wool, with branch offices all over Europe, some run by partners, others by salaried managers. He was also one of the earliest merchant bankers, specializing in bills of exchange that financed most of the trade in those times. He was using double-entry bookkeeping 100 years before it was supposedly invented by an Italian monk, and he ended up as one of the richest men of his day.

**Breeding Trust**

His papers offer us a privileged insight into the life and times of a successful self-made businessman of the 14th century. That would be fascinating enough, but what is more intriguing still is to see how closely Datini’s management and personal dilemmas resemble our modern concerns.

Trust, then as now, was critical, when you were managing by remote control. Picking the right person in the first place avoided the need for endless detailed instructions and reviews. Datini didn’t always get it right. Only one manager, whom he called a saint, did he trust completely throughout his career. Others needed constant reminders, although these were always written by him more in the tone of a scolding parent than of a supervisor, which removed much of the sting but left the bite. One letter starts: “I see that you only read my letters once, and reply heedlessly … and then sit by the fire dreaming of the great profits you will make!” To another manager he wrote, “You cannot see a crow in a bowlful of milk.”

But trust also required the careful allocation of responsibilities “…so that we shall all understand each other, and each man shall have his own task; and one man shall not say, ‘The other has done this to me,’ and the other cry, ‘He lies!’ For I shall keep so close to these matters, that I shall at last see the truth.” The secret to trust, Datini implies, is delegation with carefully defined responsibilities, together with the instinct to know when to dive into the details, because trust can seldom be absolute, or indefinite. His partnership arrangements, for instance, usually lasted for only two or three years, after which they needed to be renegotiated.

Where trust was given, however, loyalty was required in return. When Datini took on the son of his friend Ser Lapo Mazzet as a young recruit, he wrote to him, “Do your duty well, and you will acquire honor and profit, and you can count on me as if I were your own father. But if you do not, then do not count on me; it will be as if I had never known you.” And high standards were expected. Datini wrote: “In May it will be two years since I slept at ease for more than four hours a night. Take this example. And if you wish to reply, ‘You are old and cannot sleep, and we are young and could sleep even on bare boards,’ I will say that I, too, would take pleasure in lying warm abed.”

These are things that in a modern organization we might say in a conversation. Written in letters in a time when letters were rare, they may have had more impact. Then again, since there was no easy way of sending copies around the organization, every letter had to be a personal one. That breeds trust, even when the letter contains a rebuke.

A businessman, Datini believed, needed money, experience, and sense if he was to be successful. By money, he meant that it was preferable to do business with one’s own capital. “For what is done with other men’s money comes to cost too dear to produce profitable trade.” Experience meant the detailed knowledge of the products one was dealing in, so that no one could deceive you, and by sense he meant the ability to distinguish between what is important and what is ultimately trivial, as well as a constant awareness of the downside of events and relationships, or, indeed, of trusting some people too much. “The greater part of mankind,” he
reminded one of his managers, “is evilly disposed; the earth and sea are full of robbers.” Sometimes it is hard to see how today’s management textbooks can improve on the hard-earned wisdom of this 14th-century millionaire.

A Mirror of Our Times

Francesco Datini was a workaholic like many modern managers, obsessed by the desire to grow his business and to accumulate wealth, even when he clearly had more than enough. His ledgers were headed “In the name of God and profit,” but until the very end of his life it was profit more than God that occupied his mind. He had a long-suffering wife whom he sadly neglected. One of her letters sounds horribly contemporary: “I think it is not necessary,” she writes, “to send me a message every Wednesday to say that you will be here on Sunday, for it seems to me that on every Friday you change your mind.”

But he was fortunate — he had a best friend and mentor who was also his lawyer and who did his best to keep him focused on what really mattered in life: “In God’s name,” writes Ser Lapo Mazzei, “and for the sake of both body and soul, control yourself a little and go with the world as it goes. Do not kill yourself because the wheel turns sometimes this way and sometimes that, as it always has and always will.”

However, Datini was ambitious, for recognition as well as riches, to the dismay of another friend, Luca, who wrote, “You said you would live in peace and not seek for worldly fame … But now I see, either because of worldly vanity or some other men’s counsels, you have changed your mind and wish to go to Pisa to see the King.” Undeterred, Datini still went.

Like many successful businesspeople, Francesco Datini was stingy in his business but ostentatiously generous in his personal life; too much so, thought Ser Lapo: “Do not believe,” he wrote, “that sweet oil, bestowed by a friend, does not please me. But, in faith, too much of it gives me no pleasure.”

It was not until he was in his 60s and the threat of plague hit Italy that Datini began to contemplate the prospect of his death and to wonder what it was all for. Even at the very end, as Datini passed away in his arms, Ser Lapo said, “It seemed to him very strange that he should have to die, and that his prayers should be of no avail.” He made amends finally in his will, drawn up by his mentor, leaving the great bulk of his worth to endow a foundation for the poor in Prato and to help found the Ospedale degli Innocenti in Florence, both of which are still standing.

Today, a mass is said for him every year on the day of his death in Prato’s cathedral, and the passerby can still read the inscription carved over the doorway to his house: “The Ceppo of Francesco di Marco Datini, Merchant of Christ’s Poor,” an honor of which some members of the city council did not approve. “If he rendered some service to Prato,” they grumbled, “it was only because he sought to profit by it.” It was ever thus.

This is a lovely book, beautifully written, one to dip into to savor the life of those times. But because Datini is so wonderfully honest with himself and his wife and friends, the book also acts as a mirror reflecting our own dilemmas. Six hundred years may have changed the world in some respects, but the problems of love and marriage, of business and the management of people, of money making and the point of life, these have altered very little down the centuries. God and Profit may now be retitled Social Responsibility and Shareholder Value and written in our annual reports rather than at the head of our ledgers, but that does not make them any easier to balance, in business or in personal life.+

ome are born connected, others achieve connection, still others have connectedness thrust upon them. Everyone is networked. Everyone is either a node or a hub in someone else’s network. Much as the quality of life is influenced by the quality of our networks, our standard of living is increasingly determined by network standards. To paraphrase Marshall McLuhan, we shape our networks and then our networks shape us.

The notion of networks as a dominant organizing principle to explain how the world really works has attracted enormous interdisciplinary interest. Physicists are talking to mathematicians who are talking to sociologists and economists who are talking to physicists. In barely a decade, networks of researchers have sprung up to research networks. Executives are beginning to turn to these experts for usable insights into the network dynamics shaping both threats and opportunities in business.

This is no surprise. Transportation networks have striking similarities to telecommunications networks. The Internet’s technological behaviors map well onto the ecological behaviors of the biosphere. The complex interconnections between people in research laboratories around the world can be cost-effectively etched onto the design of silicon chips. Similarly, the myriad networks that define corporate connectedness are alike. Economies aren’t merely marketplaces; they’re networks. Executives need to understand network forces, not just market forces.

economy is mind-boggling. There are policy networks, ownership networks, collaboration networks, organizational networks, network marketing — you name it. It would be impossible to integrate these diverse interactions into a single all-encompassing web. Yet no matter what organizational level we look at, the same robust and universal laws that govern nature’s webs seem to greet us.”

These laws of networks may prove as robust and universal as Newton’s laws of motion. But making network laws, which like Newtonian laws are steeped in mathematics and metaphor, comprehensible to the layperson is hard work. The New Yorker’s Malcolm Gladwell took a successful first cut with his bestselling The Tipping Point: How Little Things Can Make a Big Difference (Little, Brown and Company, 2000). Three new books published this year go far beyond tipping points to present to the conceptually curious reader important theories that reveal the hidden order of complex networks.

Barabási, the author of Linked, is a physicist and leading researcher in the field who uses the Internet as his dominant research medium for analyzing the peculiar properties of networks. His book is ideal for those looking for the perspective of a network researcher and practitioner; it’s even spiced with a few equations. Mark Buchanan’s Nexus: Small Worlds and the Groundbreaking Science of Networks (W.W. Norton & Company, 2002) is the product of a physics Ph.D. who writes for the noted scientific journals Nature and New Scientist. Although Buchanan draws heavily on Barabási’s work, his intellectual focus is the intriguing so-called small-world networking theories of mathematicians Duncan Watts and Steve Strogatz. Small-world theories, which are derived from theoretical mathematics and practical reality, prove that seemingly distant, disconnected, and disparate populations, events, or actions can be easily linked to one another. Like many scien-
tists-turned-writers, Buchanan is a bit of an ideologue who seems more comfortable discussing network ecologies than network economics. Then again, because of the transcendent nature of networks, the distinctions between ecology and economics aren’t that great.

The least scientific but perhaps most stimulating work for business readers among the three is Howard Rheingold’s *Smart Mobs: The Next Social Revolution* (Perseus Publishing, 2002). Rheingold is neither scientist nor technologist, but he knows how to talk with those who are and extract the essence of their thinking and concerns. His previous books on virtual reality, virtual communities, and the history of digital innovation in Silicon Valley remain cult classics for the digitalati. What makes *Smart Mobs* so intriguing is not Rheingold’s ongoing love affair with the potential of network technology, but his sure grasp of how people play with that potential.

**Network Mathematics**

Executives interested in the possible impact of network mathematics on their businesses and industries have a superb analogy from financial innovation, the Nobel Prize–winning Black-Merton-Scholes option-pricing equations. The mathematics was as much a machine tool for creating options as a diagnostic tool for analyzing them. Clever “quants” could use the equations to spot “hidden options” in financial instruments and wring profits from them, or, alternatively, use the equations to customize innovative financial instruments for their clients. Today, an increasing number of firms use real options as mathematical tools for pricing the risks associated with their own business investments.

What Black-Merton-Scholes equations have done for financial innovation and risk, the new network math discussed in *Linked* and *Nexus* will ultimately do for network innovation. Scientists and innovators will look for “hidden networks” within complex systems to figure out whether those networks are being overly relied upon or foolishly underexploited. These analyses will transform how organizations manage their networks to manage value. Indeed, individuals and institutions may be able to create just-in-time trading of options and derivatives to better hedge or speculate. In manufacturing, supply chains represent nothing if not an organizational opportunity to identify hidden networks of risk and reward.

Consider a speculative example from commercial aviation. For decades, American Airlines committed itself to a hub-and-spoke network topology where the vast majority of flights fed into a few key airports. The economics of this network structure worked for a time, but has fallen prey to, among other things, ruthless competition from lower-cost competitors like Southwest Airlines and JetBlue Airways. Southwest dismisses American’s hub-and-spoke network approach in favor of its own point-to-point structure. And yet, as Southwest continues to expand and sees flight densities increase at key airports such as San Jose, Oakland, and Las Vegas, isn’t it possible that the company will have inadvertently — if not serendipitously — created “virtual hubs” worthy of profitable exploitation. Barabási, Buchanan, and Rheingold would answer with a resounding yes! According to small-world theory, networks emerge from links that were never intended to mesh together. So networks aren’t just designed; they evolve.

**Order and Randomness**

As described in *Nexus*, the ideas underlying Watts and Strogatz’s “small worlds” are simple, powerful, and compelling. In effect, Watts and Strogatz validated the “six degrees of separation” phenomenon, the belief that any two people on earth are separated by no more than five people connected to each other in some meaningful way.

Inspired by earlier research on social networks, the two struggled to find a coherent mathematical way to describe how these networks were connected. What Watts and Strogatz found was counterintuitive and profound: By injecting just a few random connections into a complex network, they could make that network both more efficient and more effective. The right random links create small worlds from vast complexities. Randomness can dramatically improve the performance of a complex system rather than ruining it.

When Watts and Strogatz published a paper on their small-world theories in *Nature* in 1998, it “touched off a storm of further work across many fields of science,” Buchanan writes. “A version of their small-world
geometry appears to lie behind the structure of crucial proteins in our bodies, the food webs of our ecosystems, and even the grammar and structure of the language we use. It is the architectural secret of the Internet and despite its apparent simplicity is in all ways a new geometrical and architectural idea of immense importance.”

This finding on randomness has already had a significant impact on the design of telecommunications networks and silicon chips. Microprocessor companies like Intel and Motorola now use elements of small-world theory to link circuits on their semiconductors to make them run faster and more efficiently. Engineers are now aggressively exploring the role of randomness in performance enhancement of their products. Purely rational design that once treated randomness as the enemy has been transformed; designers now play with randomness as a tool to create “small worlds” that exploit this power of serendipitous connection. The result is more robust networks and ever-faster silicon chips. These innovations wouldn’t have occurred without the proofs outlined by Watts and Strogatz.

The “power” in power laws is not a function of Machiavellian manipulation but the “power” found in exponential functions; numbers squared or cubed or taken to the 10th power, etc. Power laws strike at the heart of what businesspeople think they understand about playing the odds and managing risk. Why? Because power laws are the sworn enemy of a basic statistical concept: the notion that probabilities present themselves in the average distribution of bell-shaped curves. In a networked world ruled by power laws, the bell curve is a dangerous lie.

In fact, power laws describe a radically different kind of distribution. There are no peaks; no symmetries; no bell curve. Power laws look nothing like traditional school-taught statistics. Yet they do a far better job of reflecting how much of the real world behaves. The distinguishing feature of a power law, Barabási writes, is that its distribution is wildly skewed: numerous tiny events coexist within the few very large ones that actually matter.

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It's important to remember — and this theme is stressed in each of the books — that small-world theory findings are the direct result of interdisciplinary interaction and observation. Empirical observation is just as important as clever theory. The beauty of the small-world hypotheses is that they can be tested in the real world very quickly.

Power Laws
Random geometries of small worlds is just one network law that commands respect. While ambitious managers read Machiavelli to better understand the laws of social and political power, effective executives need to understand that mathematical “power laws” profoundly shape laws of personal power.

“If you are not a physicist or mathematician, most likely you have never heard of power laws,” asserts Barabási. In Linked, executives will recognize their importance, because power laws can reveal as much about marketing and finance as they do about math and physics.

The distribution of individual wealth in the United States is an excellent example of a power law; a relatively tiny number of people account for the overwhelming majority of individual net worth. The distribution of American and European height, however, is not a power law. There are not a few hundred giants over 1,000 feet tall and millions of pygmies; there’s a more comforting and symmetrical bell curve distribution. Power laws explain why computing “the average” — the means, medians, and modes — for insight is so frequently a fool’s errand.

Power laws are thus crucial to understand because they force us to look at those few critical hubs — the O’Hares and Heathrows — that dominate either the creation of network value or its destruction. “If Watts and Strogatz’s discovery of random connections was a first step into the world of disorderly and complex networks,” Buchanan comments, “then the recognition of hubs and power law patterns for the distribution of links is second.”

But recall the Southwest Airlines network evolution ques-
Reputation Marks the Spot

Smart mobs are a sociological phenomenon that Rheingold persuasively argues will become an everyday reality. These aren’t the mobs that storm the Bastille or riot in the streets (although they could); they’re small worlds of individuals linked and melded by technological networks, especially through mobile communications. Smart mobs don’t just mediate information and analysis; they mediate passion and behavior.

Where Linked and Nexus describe how networks behave, Smart Mobs simply yet expansively describes how people behave — and misbehave — within networks. Rheingold is particularly interested in the just-in-time virtual marketplaces that networks can create on the basis of trust and reputation. “A field known as ‘experimental economics’ has extended game theory into two specific ‘minigames’: the ‘Ultimatum Game’ and the ‘Public Goods Game,’” he writes. “Research using these games as probes indicates that:

- People tend to exhibit more generosity than a strategy of self-interest predicts.
- People will penalize cheaters, even at some expense to themselves.
- These tendencies and the emotions that accompany them influence individuals to behave in ways that benefit the group.”

In other words, e-Marketplaces are media as much for social interactions as they are for financial transactions. That is, who you are and what you’re doing are as important as what you want to buy or what you want to sell. It’s no accident that eBay is still around and making money for both itself and its, ahem, community of auctioneers. Your reputation on eBay can — and often does — matter far more than what you are attempting to either buy or sell.

“Reputation marks the spot where technology and cooperation converge,” Rheingold writes. “The most long-lasting social effects of technology always go beyond the quantitative efficiency of doing old things more quickly or more cheaply. The most profoundly transformative potential of connecting human social proclivities to the efficiency of information technologies is the chance to do new things together, the potential for cooperating on scales and in ways never before possible.”

And yet, when novel “networks of scale,” as Rheingold describes them, actually emerge, Barabási and Buchanan insist they will be shaped by the algorithmic imperatives of small-world theory and power laws. People can’t break these laws of networks any more than they can violate Newton’s laws of motion.

However, mathematical laws can be slavishly obeyed or cleverly exploited. Indeed, as Newton himself once remarked, “To master nature, one must obey her.” Scientific laws can empower even where they seem limiting. Entrepreneurs and innovators will figure out how to master networks while obeying their (apparent) laws.

What is Intel without the ideology of Moore’s Law? What is the options and derivatives marketplace without Black, Merton, and Scholes? It’s still too early to say how the laws of networks will shape tomorrow’s technologies and sociologies. But it’s not too soon to argue that more individuals and institutions will be more inextricably intertwined with more networks in the future. So you shouldn’t read these books with the expectation of rewriting business plans or revising capital expenditures. You should use them to better understand the networks your business has, and to rethink what they should be. Perhaps, in the process, you may discover more than one small world among the disconnected parts of your organization and marketplace.

Michael Schrage (schrage@media.mit.edu) is a codirector of the Massachusetts Institute of Technology’s Media Lab’s eMarkets Initiative and a senior adviser to the MIT Security Studies program. Mr. Schrage is the author of Serious Play: How the World’s Best Companies Simulate to Innovate (Harvard Business School Press, 1999).
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