

A horizontal strip of black and white portraits of various men, likely business leaders, positioned behind the main title text.

THE BEST

OF INSPIRING IDEAS 2009

Michael Porter

Vijay Govindarajan

Marcus Buckingham

Philip Kotler

Bill George

John Chambers

Patrick Lencioni

Kevin Roberts

And many more....

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THE BEST

OF INSPIRING IDEAS 2009

WELCOME TO THIS SUMMARY OF THE VERY BEST CONTENT FEATURED IN HSM'S INSPIRING IDEAS NEWSLETTER

In the following pages you will be able to get an insight into the key issues that have been facing management in what has been a particularly turbulent year, and some of the very best thinking on how to successfully face up to today's most important business challenges.

Each month Inspiring Ideas brings you a selection of the best content focused on a specific theme critical to the functioning of any successful business.

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MAINTAINING HEALTHY TEAMS AND BUSINESSES IN TIMES OF UNCERTAINTY AND CHANGE

1

Develop others and their talents

and create an environment in which people can do their best and want to.

2

Leaders must tell the truth

—which includes admitting what they don't know and what they have done wrong. It is impossible to manage successfully if you don't know what is actually going on.

3

Pay attention to feedback effects.

Offshoring had advantages, but due to all the demand prices in India are rising. This is basic economics and you should look out for these signs.

4

Pay attention to the interdependence or connections.

Even as some departments are trying to cut the costs of benefits, others are worried about recruiting and retaining enough qualified people. Maybe the parts should work together.



JEFFREY PFEFFER

PROFESSOR OF ORGANIZATIONAL BEHAVIOR AT THE STANFORD GRADUATE SCHOOL OF BUSINESS

5

When managing people, incentives are not always the answer...

Many companies presume that incentives are the answer to everything. Companies get themselves into trouble all the time by being too clever with their incentives.

6

Companies learn just like people learn

—by trying new things and seeing what happens. That requires after-action or after-event reviews so that instead of having one year of experience repeated 20 times, people and companies actually accumulate learning over time.



BILL GEORGE
HARVARD BUSINESS SCHOOL PROFESSOR
AND FORMER CEO OF MEDTRONIC

21ST CENTURY LEADERSHIP

Speaking at the World Business Forum in New York, one of today's most influential voices on leadership explains the characteristics of successful 21st century leaders.



MARCUS BUCKINGHAM
BESTSELLING AUTHOR
OF *NOW, DISCOVER YOUR STRENGTHS*

MANAGING VS LEADING

Here Marcus Buckingham revisits the question of what defines successful leaders and managers and how you should assess your own personal managerial and leadership skills.



ORGANIZATIONAL DNA FOR STRATEGIC INNOVATION

By: Vijay Govindarajan

An organization built for success in one business is unlikely to succeed in a much different one. Unless, that is, it creates a separate group with an entirely different DNA.

6 Recently we had an opportunity to work with the director of strategy for an organization that had an ambitious innovation agenda. He was feeling dispirited as he prepared for a meeting to kick off the next planning cycle. The company's innovation efforts over the past two years had largely not delivered, and it was not quite clear why. A lot of people were ducking responsibility. Conversations about why the organization had stumbled were uncomfortable. It became evident, after a few conversations, that this organization, like many others, was not recognizing that sometimes innovations fail not for the shortcomings of individuals, but because the organization as a whole was designed to do something different.

There are fundamental rules that determine how organizations behave -- policies and practices that have a tremendous impact on motivations, capabilities, and behavior. These rules are so powerful, and so often taken for granted, that it is entirely apt to refer to them as organizational DNA. Crucial elements of DNA include hiring and promotion practices, leadership styles, planning processes, performance measures, reporting arrangements, formal and informal power structure, how relationships between groups are defined, how individuals are rewarded, and core values.

All companies have DNA, even small ones. As soon as a company gets big enough that the founder can no longer make every decision on its own, the founder has no choice but to start creating DNA. To succeed, companies must create a DNA that fits their business model.

Organizational DNA and biological DNA have some similarities. They both are difficult to observe directly, and have powerful impacts on behavior. But there are crucial differences, too. Biological DNA is inherited at birth, and cannot be changed. Organizational DNA is created early in life, and can be changed, albeit with some effort.



VIJAY GOV
TUCK PROFESSOR OF IN



VINOD RAJAN
INTERNATIONAL BUSINESS

Some innovation efforts fail because a company's weaknesses are simply the flip side of its strengths. An organization that is hard-wired for success in one business is highly unlikely to succeed in a much different one. Unless, that is, it creates a subunit with an entirely different DNA.

Thus, once leaders choose a set of innovative ideas to invest in, there must be two separate tracks for converting those ideas to reality - one set for implementation within the existing organization, and a second set of strategic innovations that only have a chance within a distinct subunit that is carefully constructed from the ground up.

There is no exact science to choosing in which track a given idea belongs. To give at a rough analogy, if you are trying to make a swimmer into a faster swimmer, leave the project within the existing organization. But if what you are trying to build is a completely different kind of athlete, it must be taken out of the existing organization. You cannot easily turn a world class swimmer into a professional baseball player.

What constitutes "a completely different kind of athlete," then? Just what constitutes a strategic innovation? There are a few fundamental questions that define what a business is. Who are your customers? What value do you offer those customers? By what processes do you deliver that value? What areas of expertise are needed to deliver that value? Finally,

how much uncertainty is there in the business—that is, how accurately do you feel that you can predict results two years out?

Answer these questions for your core business. Now answer them again with the innovative idea in mind. If your answers are starkly different (that is, the difference is obvious within just a few words, even to someone who knows little or nothing about your industry) for at least two of the above questions, then what you are building is a different kind of athlete. It is a strategic innovation.

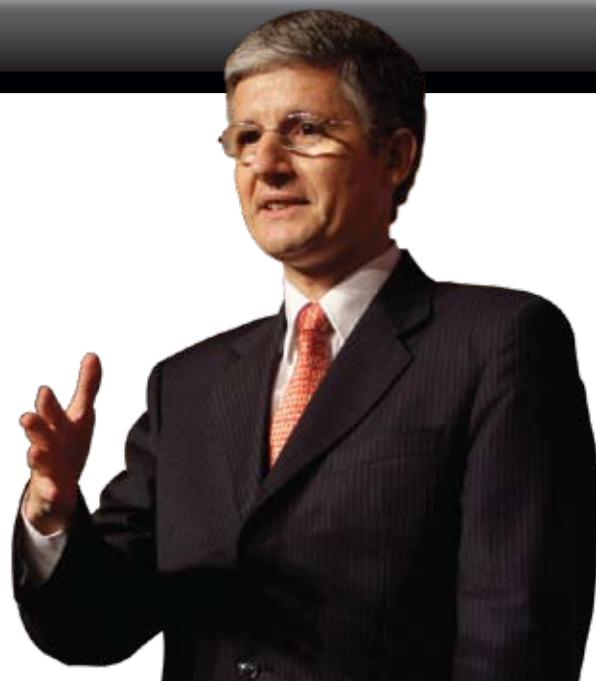
Do not bother with strategic innovation if you are not willing to create a different kind of organizational subunit. It is not worth your time, or your money. You will fail.

Strategic innovation is hard, but there are times when it is crucial. Sometimes it is the best way to retain your best people. Sometimes it is the last remaining path to growth. And sometimes it is the only possible defense to an upstart competitor that is redefining the rules of the game in your industry.

MAKING GREAT PEOPLE DECISIONS IN TODAY'S TURBULENT ENVIRONMENT

By: Claudio Fernández-Aráoz

Why people decisions matter so much



CLAUDIO FERNÁNDEZ-ARÁOZ
BEST SELLING AUTHOR
OF *GREAT PEOPLE DECISIONS*

8 Making great people decisions is a foundational condition for building lasting greatness. And as the best research shows, it is also the most significant controllable factor which has a measurable impact on organizational value.

If this has always been the case, making the right people choices has become even more crucial lately, for two reasons: First, 70% of the value of today's organizations are intangible assets. And these are all about people. Second, in an increasingly turbulent environment, the skills needed may change dramatically while the frequency and urgency of critical decisions sharply increases.

But here is the good news: Turbulent environments represent a unique opportunity for investing in the right talent. In a troubled environment, some exceptional talents may become available. However, compensation levels tend to decline. When the impact of talent is larger than ever, and costs are lower, wise managers and organizations can achieve the highest possible return on talent.

Why they are so hard

While investing in the right talent is an urgent (and highly profitable) priority in today's environment, unfortunately we are ill-prepared to make great people decisions.

First, our hardware is obsolete: The main problem is that we are asking an old brain to do a new job. Our hardwired brains—designed to help us survive as nomadic hunter-gatherers—don't mesh well with our current challenges. In particular, a series of emotional biases, hidden deep in our



unconscious minds, work against us, and unfortunately, they bear strongly on our people decisions. For example, because of our hard wiring, we procrastinate about people decisions. We exaggerate the risks of change and disregard the opportunity cost of the status quo. And when we do act, we are inclined toward snap judgments. Research from the neurosciences has revealed that we form an initial unconscious impression of the person in front of us at lightning speed—on the order of one-twentieth of a second—but unfortunately, such impressions are long on snap and short on judgment.

Second, our software is also obsolete. Just consider today's educational curriculum, even for MBAs. We spend years studying finance, accounting, marketing, operations, and even strategy. How much time

do we spend building practical skills in order to make great people decisions? Typically, we spend no time at all. Our edu-

cational system has an amazing blind spot despite the fact that, as Jack Welch put it, "Hiring great people is brutally hard."

What to do

In order to make great people decisions in today's turbulent environment, I'd like to offer ten specific recommendations:

1 Realize the need to act: Remember that, in turbulent times, there are usually few bullets to kill the hungry tiger.

2 Consider the value at stake: When Timothy Geithner was announced as the new Treasury Secretary, the value of US stocks increased by a trillion dollars. Great senior appointments are the largest controllable source of value, for organizations of all sorts and sizes.

3 Overcome the emotional barriers: It's hard to hire when firing. But staying alive and rebounding from the crisis may make it imperative.

4 Be proactive: 90% of organizations are slow at removing poor performers at the top. Can you imagine a soccer team not removing 90% of its poor players?

5 Watch for the soft: While relevant experience is key when you don't have much time to learn, turbulent environments also require high levels of emotional-intelligence based competencies.

6 Cast a wide net: Despite the urgency, make sure to consider a wide pool of candidates, both insiders and outsiders. That will set a higher limit for your great people decisions.

7 Assess with discipline: Make sure to involve a limited number of high-caliber assessors, conducting well-structured interviews and proper reference checks. The process and the participants are both key.

8 Have courage to close: It's not easy to selectively pay well when cutting costs. But if you have done the homework, few investments will have a larger payoff.

9 Support the integration: Most companies leave their new managers to sink or swim. As a result, most sink. A well planned integration drastically increases the chances of success.

10 Sharpen your skills: Despite the critical importance of people decisions for career success and company value, most of us did not study how to master them. The good news is that making great people decisions is not a mystery, an art, or the result of exceptional intuition. It is a craft and a discipline that can be learned and should be learned for your success.



CHAOTICS: MARKETING IN TURBULENT TIMES

The signs of turbulence are all over, and they are not going away anytime soon. In fact, marketers need to develop a new mindset of always being on hot standby to activate automatic response marketing programs when the turbulence whips up and chaos reigns in. Take a look at PHILIP KOTLER'S eight factors that marketers need to keep in mind as they create their Chaotics marketing strategies.

1

Secure your market share from core customer segments:

This is no time to get too greedy so be sure your first priority is to get your core customer segments firmly secured, and be prepared to ward off attacks from competitors attempting to take away your most profitable and loyal customers.

2

Push aggressively for greater market share from competitors matching up to your core customer segments:

All companies fight for market share and, in turbulent and chaotic times, many have been weakened. Slashing marketing budgets and sales travel expenses is a sure sign that a competitor is buckling under pressure. Push aggressively to add to your core customer segments at the expense of your weakened competitors.

3

Research the customer more now because their needs and wants are in flux:

The cost and waste you eliminate now has more impact on the bottom line than any price reduction (to make up for a 5% price reduction, you need a 19%



PHILIP
KELLOGG PROFESSOR OF I

increase in sales - that's not happening anytime soon). And if an item is beyond your control, let it go. Refuse to be paralyzed by the unknown.

4

Seek to increase—or at least maintain—your marketing budget:

With the market being buffeted by turbulence and your customers getting whipsawed by it—and aggressively marketed to by your competitors, this is the worst time to even think about cutting anything in your marketing budget that targets your core customer segments. In fact, you need to add to it, or take money away from those forays you were



KOTLER
INTERNATIONAL MARKETING

planning to go after totally new customer segments. It's time to secure the home front.

5

Focus on all that's safe and emphasize core values:

When turbulence is scaring everyone in the market, there is a massive flight to safety by most consumers. This is the time when they need to feel the safety and security of your company and your products and services. Do everything possible to communicate that continuing to do business with you is safe. Sell them products and services that continue to make them feel safe; and spend whatever it takes to do it.

6

Quickly drop programs that aren't working for you:

Your marketing budgets will always be scrutinized, in good times as well as bad times. Cut out any ineffective program of yours before anyone else calls attention to it. If you're not watching them, rest assured that someone else is, including all your peers whose budgets couldn't be protected from the axe.

7

Don't discount your best brands:

Everyone tells you not to discount your established and most successful brands for good reason. When you discount them you instantly tell the market two things: your prices were too high before you discounted them, and; that they won't be worth the price in the future once the discounts are gone. If you want to appeal to more frugal customer needs and wants, then create a new, separate and distinct product

or service offering under a new brand with lower prices. This gives value conscious customers the ability to stay close to you, while not alienating those who still are willing to pay for your higher-priced brands. Once the turbulence subsides and you see some calm skies ahead of you, you may consider discontinuing your newly introduced branded value product line—or not. Remember, it's better for you to cannibalize your products than for your competitors to do so; at least you have the ability to up-sell them if they're still your customers.

8

Save the strong; lose the weak:

In turbulent markets, you need to make your strongest brands and products even stronger. There's no time or money to be wasted on marginal brands or overly fragile products that are not supported by strong value propositions and a solid customer base. Tie in the need to appeal to safety and value to reinforce already strong brands and strong and service product offerings. Remember, your brands can never be strong enough, especially against the strong waves of a turbulent economy.

REAPING THE BENEFITS OF VALUE

If you truly have a unique and valuable solution to offer your customers, how do you get paid for the value you create? Here Jeff Thull offers three steps to successfully demonstrating value to your customers.

First, get your mindset straight.

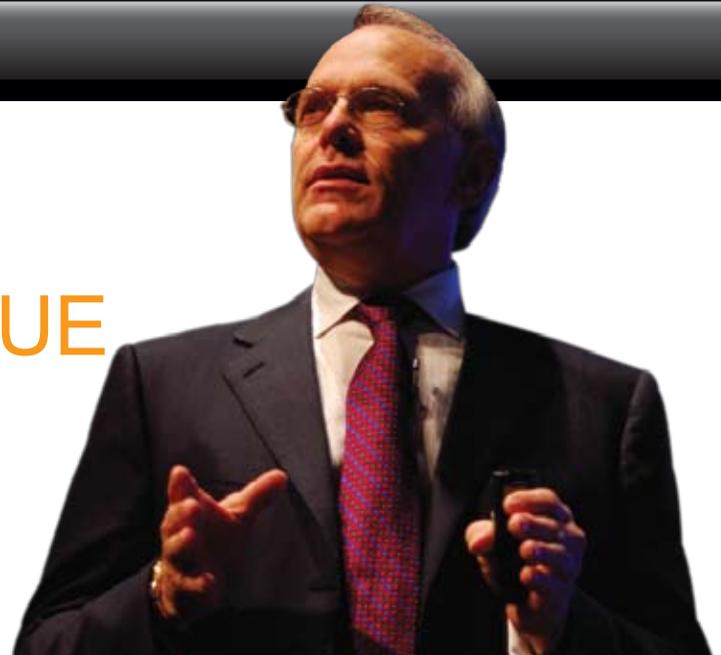
Understand that we are clearly in a new era of selling. Today's market requires that organizations transform their approach from "purveyors of products" to "diagnostic business advisors" -- a role you will want to emulate.

Second, help customers connect your value to their business drivers.

Customers are also expecting suppliers to add value at much deeper levels than what was traditionally delivered to their

organizations. Historically, we presented our products and customers connected the value to their business. Today, successful sales professionals are actively guiding those connections.

Look at how the absence of your value is affecting each individual involved in, or influ-



JEFF THULL
BEST SELLING AUTHOR
OF *LEADING THE COMPLEX SALE*

12



encing, the decision to buy. With each individual, identify and quantify the impact on their business, or job responsibility, in financial terms. As you bring this level of clarity to your customer, you will have established the foundation of a valuable relationship.

Third, develop skills to communicate at a business acumen and strategic level.

The customer's desire is to build tighter bonds with fewer vendors. They also want to work with professionals that they consider "contributors" to their success. Both are an advantage to skilled professionals and as a contributor, you will gain access to key individuals and be able to build your business case. It is your responsibility to connect your company's unique value to each individual in the context of his or her job responsibilities and their personal agendas. By the time you have had the right conversations with the right people, you will have differentiated yourself and your solution's value, and it is unlikely that it can be challenged by a competitor.

Key Functions of the Sales Force



NEIL RACKHAM

BEST SELLING AUTHOR OF *SPIN SELLING*

Watch one of the most influential sales analysts discuss the key functions of the sales force and its role in creating value.





CASE STUDY: THE PANAMA CANAL

The completion of the Panama Canal is one of the world's great engineering feats and the negotiations to complete and build this vital connection between two oceans spanned decades. In 1881 a French company called the Compagnie Nouvelle du Canal de Panama acquired the contract to build the canal. But by 1889, the Compagnie had gone bankrupt and had lost roughly \$287 million along with approximately 20,000 lives in the process. In the same year, the U.S. became convinced that the canal passage was absolutely vital to their interests.

Naturally, the U.S. was interested in the Panama route already started by the French, and entered into negotiations to buy them out. The French company was eager to extricate themselves from the project, but felt their total holdings should be valued around \$109 million. The U.S. estimated them to be not greater than about \$40 million.

As negotiations progressed, the Americans began to hint that they were also interested in the possibility of building an alternative canal in Nicaragua. The French countered with the ploy by claiming that both Great Britain and Russia were looking at picking up the financing to complete the canal's construction. It was subsequently leaked to the U.S. press, that a U.S. commission had concluded that the cost to buy out the French company was too excessive and recommended the Nicaraguan route.

A couple days after this news broke, the president of Compagnie Nouvelle resigned. The resulting furore caused the stockholders to demand that the company be sold to the U.S. at any price they could get. The Americans became aware that they could now pick up all the French holdings for \$40 million. However, the Nicaraguan route was actually a serious proposal that had a lot of backing in the U.S. Senate. President Roosevelt had to engage in some serious political maneuvering to get everybody on board of the Panama passage. The commission eventually changed its recommendation to favor Panama as the canal route.

And the story doesn't end there. Next, the U.S. signed a new treaty with Colombia's chargé d'affaires which gave the U.S. control of a six mile area across the Isthmus and agreed to finan-



cial remuneration that was to be paid to Colombia. But the Colombian charge d'affaires had signed the treaty without communicating with his government. The treaty was rejected by Colombia. In the meantime, revolution against Colombian authority was afoot in Panama. Since they believed they had signed a legitimate treaty, Roosevelt sent warships to the area to negate the Colombians, secured U.S. interests, and offered aid to the Panamanians in their quest to separate from Colombia. Panama succeeded in their revolt and became a republic. In 1914, what was to become one of the world's most important trade routes, was opened.

See more negotiation case studies at www.negotiations.com

Lessons from Northern Ireland



DAVID TRIMBLE
WINNER OF THE NOBEL PEACE PRIZE

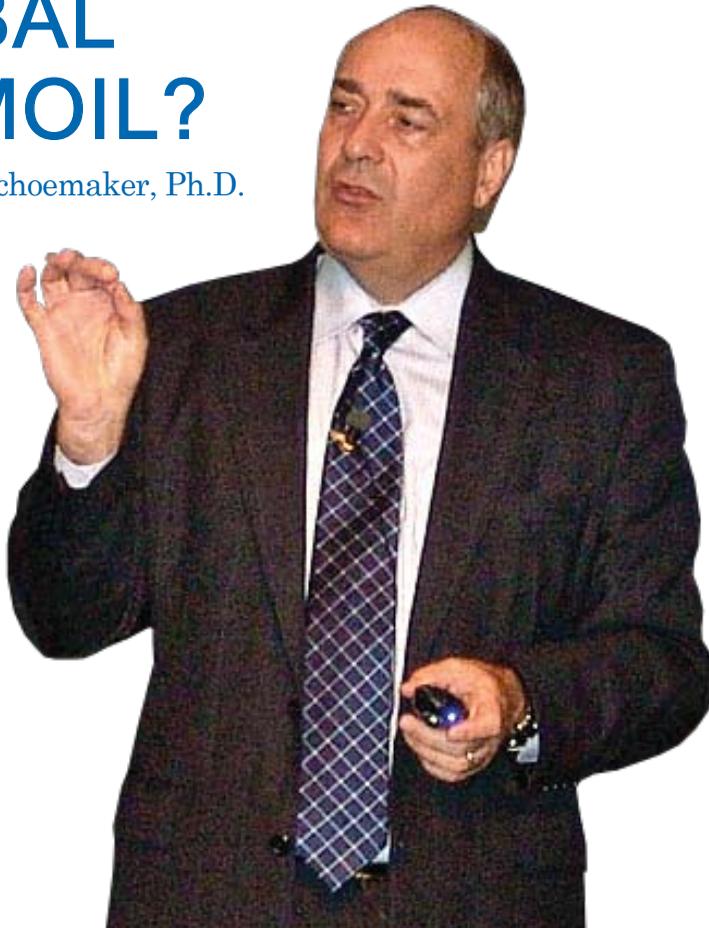
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Recognized for his efforts in bringing an end to violence in one of the world's most deeply conflicted regions - Northern Ireland - here David Trimble talks about why flexibility isn't always the asset you might imagine when negotiating.



ARE YOU READY FOR MORE GLOBAL TURMOIL?

By: Paul J.H. Schoemaker, Ph.D.



PAUL J. H. SCHOEMAKER, PH.D.,
THE WHARTON SCHOOL

Policy makers and business leaders are justly concerned about the fragility of our financial and economic systems, since crises can spread overnight and companies can lose much value in a single weekend (as Bear Stearns, Northern Rock, Fortis, Shearson Lehman and Merrill Lynch learned the hard way).

All companies, but especially those with overseas business, need to be prepared for a roller-coaster environment. Unfortunately, many are not prepared. Below are some questions I am commonly asked, with some brief recommendations.

Q1. If you haven't already prepared for higher levels of turmoil, is there still time?

Yes, there is still time for those companies that did not over commit. The key to dealing with turmoil is to have flexibility in your strategy. In addition, you need to detect the changes soon and respond accordingly. This requires good peripheral vision, i.e., the ability to pick up weak signals outside your area of focus. Few companies do this well and often they get blindsided unnecessarily, as documented in our recent book *Peripheral Vision*. If your company did stick its neck out dangerously far, as some of the smartest financial firms did by overbetting on subprime mortgages, then you may wish to unwind some of these commitments or pursue hedging strategies that will mitigate your downside exposure. All companies should stress test their strategies by putting them into the wind tunnel of wide-ranging future turmoil to see how robust they are. As Darwin observed, it is not the strongest or smartest who survive, but those who are most adaptive to change. Don't box yourself in.

Q2. Should companies that have engaged in scenario planning go back and revise some of their assumptions?

Ideally, such revisions should happen as part of an on-going monitoring and scanning activity. It was easy for Shell's scenario experts to recognize that they needed to rethink their conceptual frameworks after the Berlin Wall came down since a new geopolitical world order was about to emerge. The challenge is to do so ahead of time, when the signals are weaker. Cognitive science shows that managers often over-react to changes in symptoms or surface features, such as a spike in sales revenue or a drop in interest rates, but under-react to more fundamental regime change, which often happens more gradually (and thus can sneak up). By designing scenario-based monitoring systems and executive dashboards, leaders can track which scenarios have become more or less likely. And as importantly, they can track signals that are emerging that do not fit any of the scenarios. If this parking lot of aberrant signals gets crowded, it is time to go back to the drawing board. Don't ignore the warning signs or run through red lights.

Q3. What are some best practices that companies should follow?

Here is my favorite list in a nutshell, with some best practice companies listed as well (as based on my book *Profiting from Uncertainty*). Ideally, these practices operate as a highly integrated system with numerous cross synergies.

1 Use scenario planning to improve your organization's insight and foresight about the future (Shell, Sprint, and the World Bank excel at this).

2 Devise adaptive strategies that have sufficient flexibility built in to deal with the unexpected, including future-proofing your plans using real-options thinking (BP and Google are strong at emphasizing "optionality" thinking).

3 Design a dynamic monitoring system to track the external world in real time, as well as to gauge internal progress of executing strategies and plans (P&G, IBM, and NASA do this well).

4 Improve your organization's agility in terms of structure, processes, norms, and rewards to cope better with the unknown (WL Gore and Apple come to mind).

5 Enhance your information and decision-making procedures to remain vigilant through external networks and by properly balancing traditional and newer tools (Samsung and Cisco are strong here).

6 Foster strong leadership at multiple levels in the organization to deal better with crises and other unexpected circumstances (GE and McKinsey excel here).

DIAGNOSING DYSFUNCTIONAL TEAMS

There can't be a company in the land that doesn't claim to recognize the importance of effective teams as a foundation for strong results. Few, however, go beyond platitudes and lip service when it comes to actively improving how their teams function and perform. One man who has made it his mission to address this situation is **Patrick Lencioni**.

Building on his insights as a consultant at Bain & Co., he set up The Table Group, dedicated to helping organizations, and the people who work within them, become "healthier" and more effective. He has since gone on to write a number of best selling books

including *The Five Dysfunctions of a Team*, *Silos, Politics and Turf Wars*, and *Three Signs of a Miserable Job*.

Interview by Chris Stanley

When you first go into a company that you are going to work with, how do you go about assessing if it's healthy or not? What are the things you look for?

Every company is unhealthy. That's a fair, not a cynical, statement. It's like a marriage. Is there any marriage that says "OK, now we are done?" In the same way there is no such thing as a company that is no longer in need of improvement. Any company that calls us in already understands that and wants our help. That makes things a lot easier. Unfortunately or ironically, the companies that are healthiest are the ones that are more aware of that need for improvement and the ones that aren't don't call

us. I used to say that I feel a little bit like a doctor who went into the profession in order to help people get healthier, but the only people that come to my practice are the ones that already have a pretty good health. What I end up doing is helping those wanting to get better.



What are the most common problems that you see repeated over and over again?

I see people wasting a lot of time talking about things that are not important. The other thing I see is that they don't do nearly enough arguing - positive debate about important things. Too much time is spent dispassionately discussing unimportant things. Every meeting we have there should be something worth worrying about that makes that meeting worth having. And if there's something worth being concerned about, we should have some healthy angst. If we are in a meeting and we are bored, it means that we are not teasing up the important things.



PATRICK LENCIONI
BESTSELLING AUTHOR OF
THE FIVE DYSFUNCTIONS
OF A TEAM

So you always encourage conflict?

Definitely. Not conflict just for the sake of conflict, but conflict around whatever issue is particularly critical at that moment. If nothing is critical, then cancel the meeting. But I've never seen a company that didn't have something worth debating, worth being concerned about.

You have said you believe that humans are fundamentally self interested. I was therefore wondering how you think it's possible

to overcome that fundamental element of human nature, to put the team's interest over your own interest?

I don't think teamwork is natural. I do believe that people are generally going to look out for themselves. What you have to do is address the natural reason why people are like that. I also believe that people have a fundamental desire to work together in teams. However, that doesn't just happen naturally. You have to take people through somewhat painful and unnatural steps to get there. It's like a marriage. You don't get into a marriage thinking "I'm going to be completely vulnerable and open with this person." It takes time, and if you are not willing to put in the work, it just isn't going to happen. What we do is we help people do that while understanding initially that people are probably going to be more interested in their well being. We realized that's just the way human beings are.

Can you give me an example of some of the companies who have fully embraced

the importance of creating functional teams?

Southwest Airlines is probably one of our favorite companies to talk about because they just get this. Southwest Airlines is one of the most financially successful companies in American industry over the past 30 or 40 years. And in a very difficult sector. Every competitor has tried to match their strategy or their tactics. But their biggest competitive advantage is that they have strong teams that are functional.

If culture is something that no company can copy, then that's a huge competitive advantage...

I honestly believe that it's the ultimate competitive advantage. If you can create a sustainable culture of teamwork, trust and healthy, positive conflict, the end of the model is results. At the end of the day there is only one thing that makes a team great and that is that they actually accomplish what they set out to accomplish. It doesn't mean that they are the richest companies, it means that they are the most consistently successful ones.

MICHAEL PORTER'S FIVE FORCES

What does the success of my business depend on? Michael Porter has identified the five forces that affect a company's ability to serve its customers and make a profit. A change in any of the forces normally requires a company to re-assess its strategy.

1

The threat of substitute products.

What products could your customers buy instead of yours? Be aware that substitute products can come in many shapes and sizes, and do not always come from traditional competitors. Substitutes essentially place a price ceiling on products. It's more difficult for a firm to try to raise prices and make greater profits if there are close substitutes and switching costs are low. But, in some cases, customers may be reluctant to switch to another product even if it offers an advantage. Customers may consider it inconvenient or even risky to change if they are accustomed to using a certain product in a certain way, or they are used to the way certain services are delivered.

2

The threat of the entry of new competitors.

How easy is it for businesses to enter your market? You may have the market cornered with your product, but your success may inspire others to enter the business and challenge your position. New entrants bring a desire to gain market share and often have significant resources. Their presence may force prices down and put pressure on profits. Analyzing the threat of new entrants involves examining the barriers to entry and the expected reactions of existing firms to a new competitor.

3

The intensity of competitive rivalry.

Rivalry among competitors is often the strongest of the five competitive forces, but can vary widely among industries. If the competitive force is weak, companies may be able to raise prices, provide less product for the price, and earn more profits. If competition is intense, it may be necessary to enhance product offerings to keep customers, and prices may fall below break-even levels.

For most industries, this is the major determinant of the competitiveness of the industry. Sometimes rivals compete aggressively on price and sometimes on non-price dimensions such as innovation, marketing, etc.

4

The bargaining power of customers.

The power of buyers describes the effect that your customers have on the profitability of your business. The transaction between the seller and the buyer creates value for both parties. But if buyers (who may be distributors, consumers, or other manufacturers) have more economic power, your ability to capture a high proportion of the value created will decrease, and you will earn lower profits.

Buyers have the most power when they are large and purchase much of your output. If your business sells to a few large buyers, they will have significant leverage to negotiate lower prices and other favorable terms because the threat of losing an important buyer puts you in a weak position. Buyers also have power if they can play suppliers against each other. In the automotive supply industry, the large car manufacturers have significant power. There are only a few large buyers, and they buy in large quantities. But,

when there are many smaller buyers, you will have greater control because each buyer is a small portion of your sales.

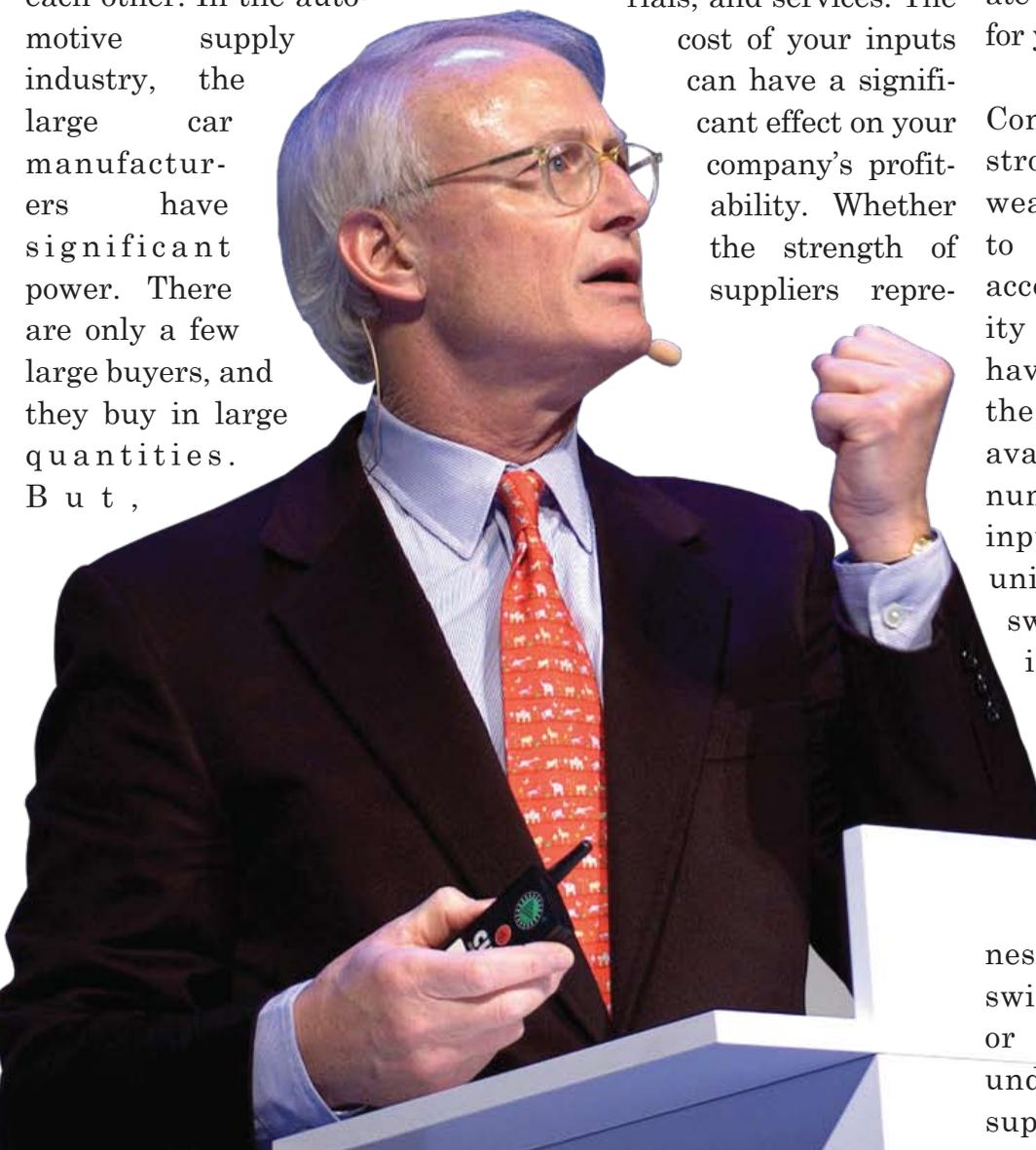
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The bargaining power of suppliers.

Any business requires inputs—labor, parts, raw materials, and services. The cost of your inputs can have a significant effect on your company's profitability. Whether the strength of suppliers repre-

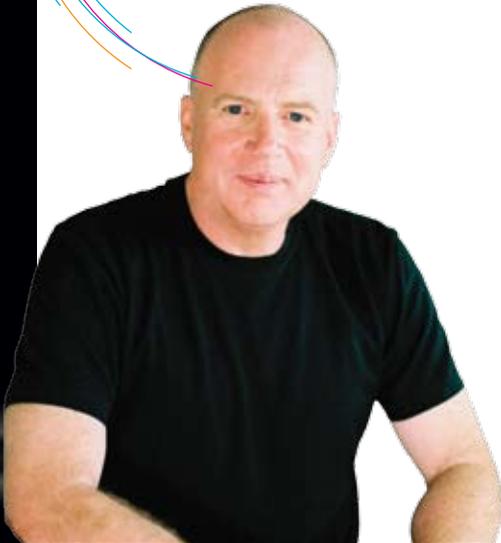
sents a weak or a strong force hinges on the amount of bargaining power they can exert and, ultimately, on how they can influence the terms and conditions of transactions in their favor. Suppliers would prefer to sell to you at the highest price possible or provide you with no more services than necessary. If the force is weak, then you may be able to negotiate a favorable business deal for yourself.

Conversely, if the force is strong, then you are in a weak position and may have to pay a higher price or accept a lower level of quality or service. Suppliers have the most power when the input(s) you require are available only from a small number of suppliers, the inputs you require are unique, making it costly to switch suppliers, your input purchases don't represent a significant portion of the supplier's business, suppliers can sell directly to your customers, bypassing the need for your business, it is difficult for you to switch to another supplier, or you do not have a full understanding of your supplier's market.



MICHAEL PORTER
UNIVERSITY PROFESSOR AT HARVARD UNIVERSITY

WINNING UGLY



KEVIN ROBERTS
GLOBAL CEO OF
SAATCHI & SAATCHI

22

In a year of change and upheaval, all industries were forced to adapt. Kevin Roberts, Global CEO of Saatchi & Saatchi, knows this as well as anybody. Best known for developing the concept of Lovemarks, the evolution of brands based on an emotional connection between the business and the client, Roberts also recognizes the importance of “Winning Ugly.” Here he sets out his eight steps to survive and thrive. They may not always be pretty... but they get the job done.

1

Face the truth.

Everything starts with an open, honest, candid assessment of the facts. The past was based on debt and the denial of it. The future needs to be based on knowing when enough is enough. We each have to make better choices.

2

Reframe, reframe, reframe.

Wrench yourself out of the familiar and predictable. Jump-shift your value comparisons. Stand for what is relevant to consumers – before they reframe you.

3

Control what's controllable.

The cost and waste you eliminate now has more impact on the bottom line than any price reduction (to make up for a 5% price reduction, you need a 19% increase in sales - that's not happening anytime soon). And if an

item is beyond your control, let it go. Refuse to be paralyzed by the unknown.

4

Measure only what matters.

And do it fast. Gaps in your research may feel ugly but results are what matter. Give up the satisfaction of filling every column. In advertising, only two questions matter: “Do I want to see it again?” and “Do I want to share this?”

5

Stick together.

Creating teams and mash-ups that don't fit into a box in the org plan can look ugly, but getting people to work in new ways is the way to accelerate performance, flexibility, and results – and keep them together.

6

Act fast and act decisively.

Solve all big issues in three days: one day to identify the problem, one day to send the solution upstairs for approval, and one day to put it into action.

7

Be irresistible.

In fair times and foul, you need to strive to create products and experiences wrapped in mystery, sensuality and intimacy. Wallet sizes change, people's taste buds don't, so you need to find ways of delivering more – for less.

8

Create “Loyalty Beyond Recession.”

People are driven by emotion, even more so in tough times. Your advertising agency is likely to be a better guide to consumer emotion than your investment bankers, so invest in the relationship with your creative suppliers.

“I think the Winning Ugly Eight are core to good business but they are not the whole business. It's a matter of timing and being responsive to what's really happening. There will be time for Winning Beautiful - more playing with ideas, more dreaming, more openness. We're not in that place yet but the lesson of the crisis has been that when we are in a better space – don't take it for granted and kick back. Start running.”

The Four Roles of the CEO



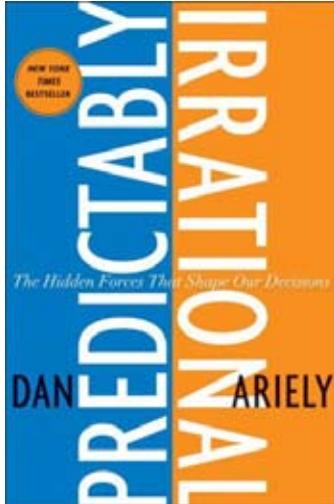
JOHN CHAMBERS
CEO OF CISCO SYSTEMS

23

Here John Chambers defines the four roles he considers every leader in a company must execute correctly and by which they should be judged by their Board of Directors.



RECOMMENDED READING



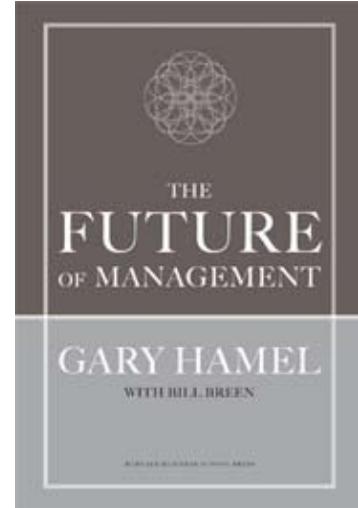
1 January

Predictably Irrational
By: Dan Ariely



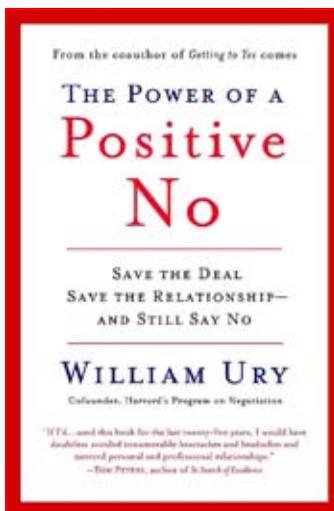
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10 Rules for Strategic Innovators: From Idea to Execution
By: Vijay Govindarajan & Chris Trimble



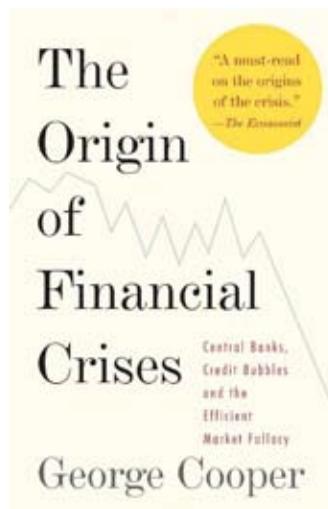
3 March

The Future of Management
By: Gary Hamel



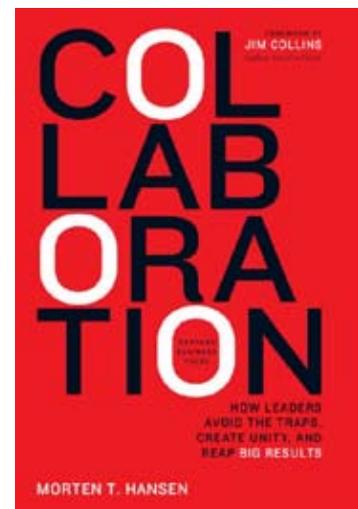
7 July

The Power of a Positive No
By: William Ury



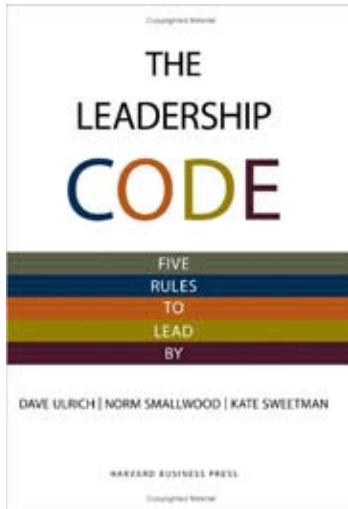
8 August

The Origin of Financial Crises: Central Banks, Credit Bubbles, and the Efficient Market Fallacy
By: George Cooper



9 September

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By: Morten T. Hansen



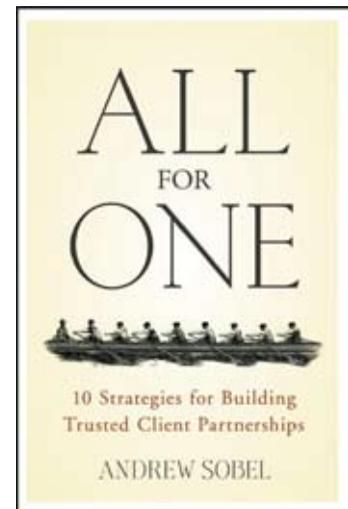
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The Leadership Code: Five Rules to Lead By
 By: Dave Ulrich, Norm Smallwood, Kate Sweetman



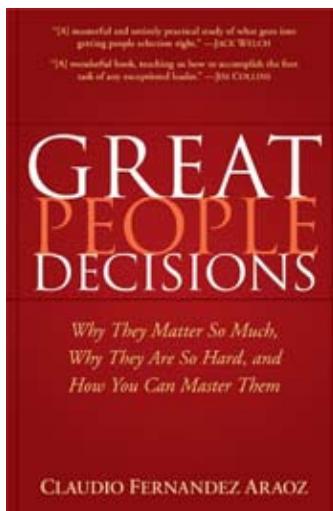
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 By: Don Peppers & Martha Rogers



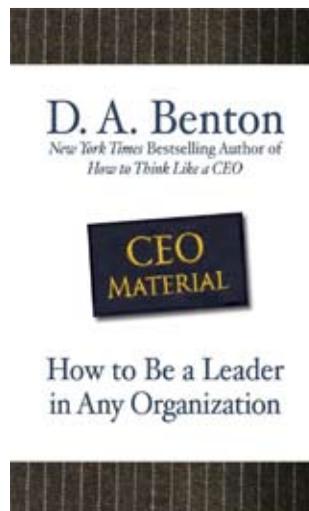
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 By: Andrew Sobel



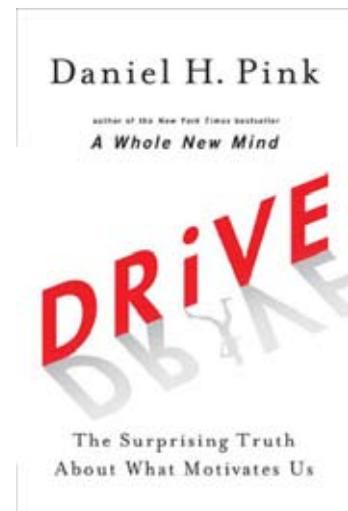
10 October

Great People Decisions: Why They Matter So Much, Why They are So Hard, and How You Can Master Them
 By: Claudio Fernández-Aráoz



11 November

CEO Material: How to Be a Leader in Any Organization
 By: D. A. Benton



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Drive: The Surprising Truth About What Motivates Us
 By: Daniel H. Pink



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