Executive Summaries
MAY 2009

COVER STORY
54 | What Only the CEO Can Do
A.G. Lafley

The author combines his nine years’ experience as the CEO of Procter & Gamble with the last writings of the management scholar Peter Drucker to answer the question “What is the work of the CEO?” The chief executive, Lafley says, is held singularly accountable for the performance and results of the company – according not just to its own goals but also to those of diverse and often competing external stakeholders. In other words, he or she is responsible for linking the outside to the inside – a job that consists of four fundamental tasks.

Defining the meaningful outside. At P&G this means emphasizing that the consumer is boss. The company has also worked to change what had been win-lose negotiations into win-win partnerships with retail customers and suppliers.

Deciding what business you are in (or not in). After a thorough analysis of its strengths, current competitive position, and structural conditions, P&G chose to grow from its core – laundry products, baby diapers, feminine care, and hair care – and also to focus more on low-income consumers and developing markets, where sales have grown from 21% to 31% of the total since 2000. The company has exited food and beverages and is selling its pharmaceutical business. Where to compete and where not to compete remain ongoing questions.

Balancing present and future. P&G defines realistic growth targets and uses a flexible budgeting process with complementary short-term, midterm, and long-term goals.

Shaping values and standards. The CEO must interpret the organization’s values in the context of change and competition and define the standards that will guide decisions. Trust at P&G had come to mean that employees could rely on the company for lifetime jobs. Lafley redefined it as consumers’ trust in the company’s brands and shareholders’ trust in its value as a long-term investment.

Determining which businesses we should not be in…calls for continual pruning and weeding. Disposing of assets is not as sexy as acquiring them, but it’s just as important.

—page 54

Reprint R0905D
FORETHOUGHT
20 | How to Get Unstuck
Rita Gunther McGrath and Ian C. MacMillan
Two professors who have studied how leaders regain momentum in uncertain times suggest four ways to get your employees to face their fear, outrun hesitant competitors, and seize advantage. Reprint F0905A

Hospital Visitors Ask for More Shopping Outlets
Andreas B. Eisingerich and Leslie Boehm
Is an institution that instills fear in many people a good spot to set up shop? Yes, say the authors, whose research shows that hospital lobbies are places where businesses can connect with consumers. Reprint F0905B

Equity or Cash? The Signal Sent by the Way You Pay
Marie E. Sushka and Ulrich Hege
It’s well known that stock markets react more favorably if a company is bought with cash rather than with stock. But the opposite holds true for just a business unit. Here’s why. Reprint F0905C

Embrace Your Enemy
Marcelo Bucheli and Erica Salvaj
In Chile, as in much of Latin America, business is identified with right-wing politics. Two Spanish multinationals found a simple but effective way to overcome this historical prejudice so that they could establish a productive relationship with the present left-wing government. Reprint F0905D

To Boost Knowledge Transfer, Tell Me a Story
Shad Morris and James B. Oldroyd
By learning how to turn field reports into compelling stories, the World Bank’s International Finance Corporation has made them fulfill their true purpose: to become effective tools that actually transfer knowledge among employees. Reprint F0905E

A Conversation with Shai Agassi
The CEO of Better Place talks about what went through his mind the night he decided to start a venture to end the world’s dependence on oil as a transportation fuel. Reprint F0905F

When Contracts Destroy Trust
Deepak Malhotra
Contracts exist to foster trust, but they can actually do the opposite. Overly detailed contracts leave no room for spontaneous acts of kindness to create goodwill between parties; too-rigid contracts leave parties unable to respond to the unanticipated; and, strangely enough, incentives can end up being just plain insulting. Reprint F0905G

Risk Gone Wild
Jonathan Rosenoer and William Scharlis
IT systems increasingly hold the potential to launch cascading disasters, triggered by the most trivial of incidents. A new type of risk-management culture is needed, warn these Carnegie Mellon professors, to guard against such extreme, but no longer unthinkable, events. Reprint F0905H

Reviews
If the company stops cleaning the restrooms, the odds are that workers won’t clean their work areas or strive to provide superior quality and service. —page 45
The boom years have made business careless with working capital. So much cash was sloshing around the system that there seemed little point in worrying about how to wring more of it out, especially if that might dent reported profits and sales growth. Today, capital and credit have all but disappeared, customers are tightening belts, and suppliers aren’t putting up with late payments. It’s time, therefore, to take a cold, hard look at the way you’re managing your working capital. If you do, say Insead professors Kaiser and Young, you’re very likely to find that you have an awful lot of capital tied up in receivables and inventory.

In this article, the authors explore six common mistakes that companies make in this area: managing to the income statement, which can encourage executives to tie up capital in stock and receivables because income statements often fail to include important cost items; rewarding the sales force for growth alone, which makes concessions in the terms of trade more likely, as salespeople look for ways to get customers to buy; overemphasizing production quality, which often results in gold-plated and slow production processes; tying receivables to payables, because even an unfortunate and costly change in supplier terms should in no way be a reason for revisiting the customer relationship; applying bankers’ current and quick ratios, which tends to increase the likelihood that a company will face a liquidity crisis; and benchmarking competitors, which can make managers complacent when their working capital metrics are in line with industry norms. Simply correcting these mistakes will release a lot of hidden cash.

Reprint R0905E
To avoid complacency, though, every team needs a deviant – someone who is willing to make waves and open up the team's direction for the team – but in so doing, team destroyers (like team members don't agree on what the team is supposed to be doing or even on who is on the team. The belief that bigger is better also compounds problems; as a team grows, the effort needed to manage links between members increases almost exponentially. Leaders need to be ruthless about defining teams and keeping them small (fewer than 10 members), and some individuals (like team destroyers) should simply be forced off. The leader also must set a compelling vision and keep them small (fewer than 10 members). The belief that teams make us more creative and productive – and are the best way to get things done – is deeply entrenched. But Hackman, a professor of organizational psychology at Harvard and a leading expert on teams, is having none of it. Research, he says, consistently shows that teams underperform despite all their extra resources.

In an interview with senior editor Diane Coutu, Hackman explains where teams go wrong. Shockingly, most of the time members don't agree on what the team is supposed to be doing or even on who is on the team. The belief that bigger is better also compounds problems; as a team grows, the effort needed to manage links between members increases almost exponentially. Leaders need to be ruthless about defining teams and keeping them small (fewer than 10 members), and some individuals (like team destroyers) should simply be forced off. The leader also must set a compelling direction for the team – but in so doing, may encounter intense resistance that puts him or her at great risk.

Hackman explores other fallacies about teams – for instance, that teams whose members have been together a long time become stale. In fact, research reveals that new teams make 50% more mistakes than established teams. To avoid complacency, though, every team needs a deviant – someone who is willing to make waves and open up the group to more ideas. Unfortunately, such individuals often get thrown off the team, robbing it of its chance to be magical.

Leaders can’t make a team do well. However, by being disciplined about how a team is set up and managed, instituting the right support systems, and providing coaching in group processes, they can increase the likelihood that a team will be great.

Reprint R0905H
Harvard Business Review and Harvard Business School Publishing content on EBSCOhost is licensed for the individual use of authorized EBSCOhost patrons at this institution and is not intended for use as assigned course material. This content may not be used in electronic reserves, electronic course packs, persistent linking from syllabi or any other means of incorporating the content into course resources. Harvard Business School Publishing is pleased to grant permission to make this work available through such means. For rates and authorization, contact permissions@hbsp.harvard.edu.