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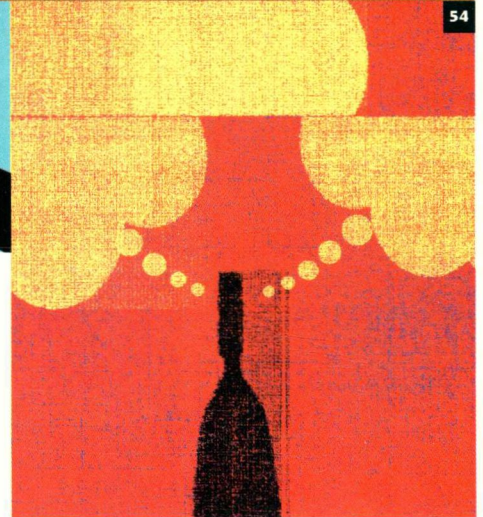
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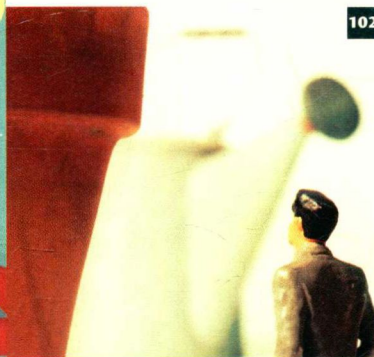
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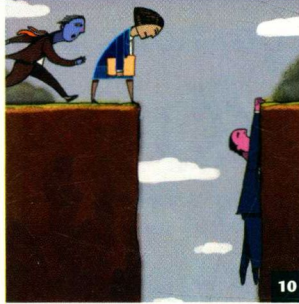


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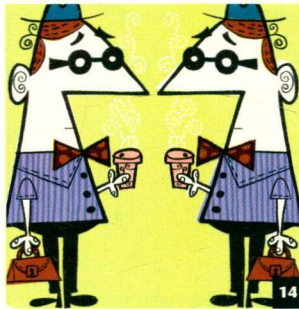
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Evil Unnecessaries

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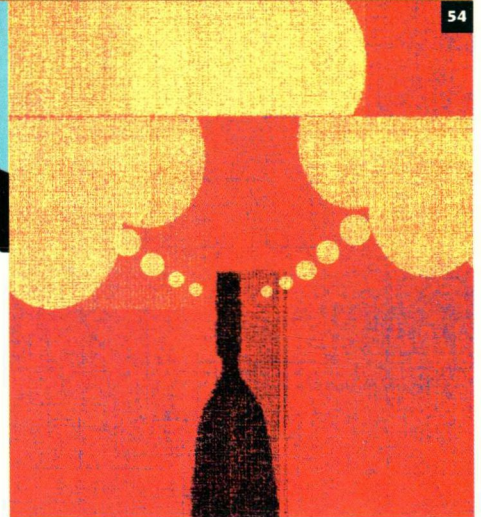
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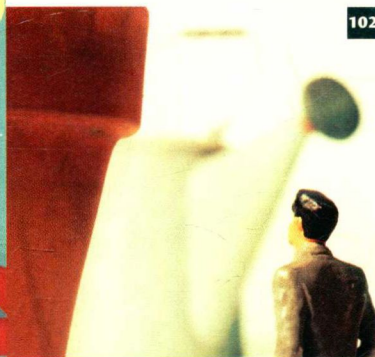
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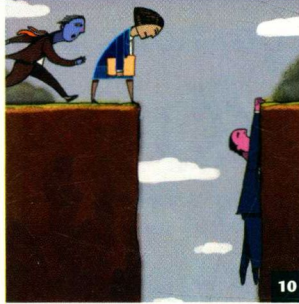
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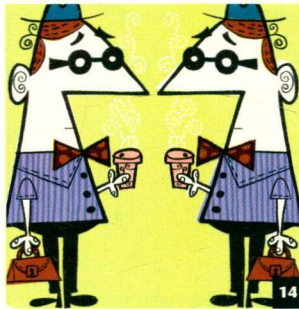
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When Businesspeople Think

BUSINESS IS ALWAYS in a hurry. “History is more or less bunk,” Henry Ford proclaimed. Speed is a source of competitive advantage. An ineffective businessperson is all talk and no action, while a successful businessperson gets things done. Indeed, the eminent psychologist Karl Weick advises leaders to leap before they look.

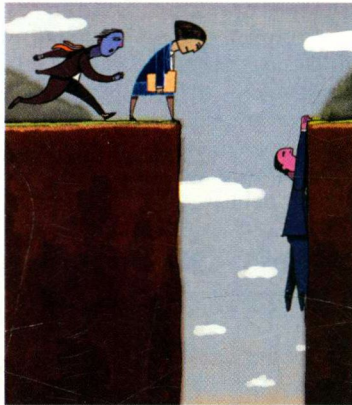
But spend some time with this issue of HBR first.

Start with “How Strategists Really Think: Tapping the Power of Analogy,” by two rising stars in Harvard Business School’s strategy unit, Giovanni Gavetti and Jan Rivkin. They’ve been studying executives’ reasoning processes. They’ve found that more often than not, executives develop and test their strategic ideas by means of analogies. For example, Toys R Us was founded when Charles Lazarus figured that toy stores could be run like supermarkets.

Reasoning by analogy is highly efficient. It’s faster than developing and sifting through mountains of data, it’s less risky than trial and error, and it’s highly persuasive. But analogies are perilous precisely because they are shortcuts and because they are powerful. If you know what you’re doing, analogical thinking is a fabulous tool; Gavetti and Rivkin can show you how to know what you’re doing. Not only will their article make you think, it will help you think better.

Another threat to clear thinking is selection bias, which occurs when people draw conclusions from a set of data without examining the sample itself to see if it is representative. Someone who has visited London only in the summer might believe it has a delectable climate, for example. In his article “Selection Bias and the Perils of Benchmarking,” Stanford’s Jerker Denrell points out that business research is riddled with selection bias—starting with the fact that almost none of it is performed on firms that no longer exist. It’s interesting to know that a management practice such as empowerment is found in winning companies, but it could be that losers practice it, too.

Understanding how selection bias afflicts business research will make you a smarter consumer of business ideas. Take, for instance, the conventional wisdom about first-mover advantage. Conventional *wisdoms*, I should say, because there are two: that it is a great thing to be first to a market and that first-mover advantage is a will-o’-the-wisp. Both are hasty generalizations that obscure useful detail. In “The Half-Truth of First-Mover Advantage,” Fernando



Suarez and Gianvito Lanzolla, from Boston University and London Business School respectively, reveal the circumstances under which first-mover advantage is very real—and the instances in which only a fool would pursue it.

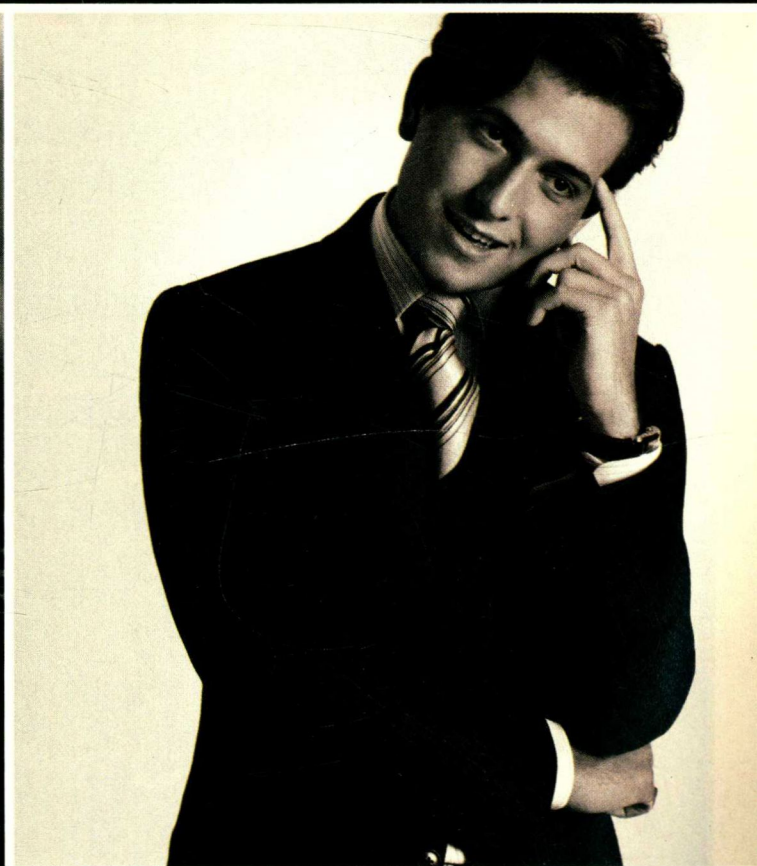
Consultant Nathaniel Mass digs into another piece of conventional wisdom in “The Relative Value of Growth.” Among executives, there’s an unspoken assumption that companies have to

choose between managing for value and managing for growth. Mass disagrees. Profitable growth, he argues, is a grossly underestimated lever for creating value. His research ought to make you think twice about how you reach your strategic decisions.

In their eagerness for action, businesspeople commonly make two other kinds of mistakes. First, they let the urgent drive out the important. Nowhere is this more dangerous than in the area of risk. As consultants Adrian Slywotzky and John Drzik argue in “Countering the Biggest Risk of All,” risk operates at the strategic level as well as at the tactical one where executives are used to meeting it. Second, businesspeople race through processes that can’t be hurried. Two articles in this issue explore the theme of impetuosity. The Kellogg School’s Ranjay Gulati has been curious about how companies become customer focused. His research led him to the surprising conclusion that all of the companies that succeed in this quest go through the same four stages in the same order. It’s not a process you can leapfrog, Gulati and his coauthor James Oldroyd say in “The Quest for Customer Focus”—it’s a journey you must complete one leg at a time. Something analogous happens with the development of leaders, the topic of “Seven Transformations of Leadership” by consultant David Rooke and professor William Torbert. As our adult minds and characters mature, we develop greater capacities for leadership. Often, though, a talented leader is promoted ahead of his or her maturation. The result can be disastrous—for the company *and* for the leader.

Business is, indeed, about action—but it ought to be about intelligence, too. We hope this issue will make you smarter.

Thomas A. Stewart



Peter Cincotti

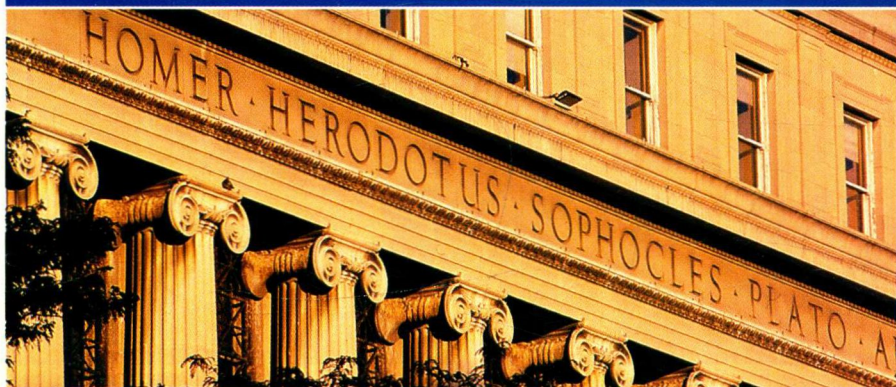
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Romano

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PUBLISHER

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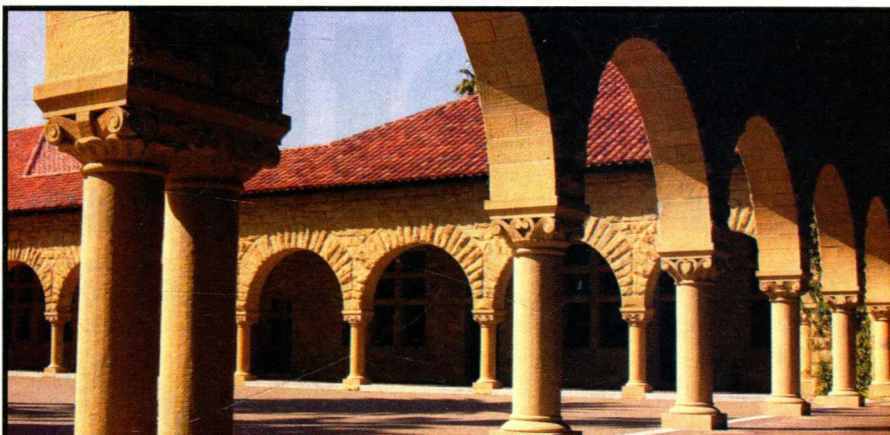
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contributors

John W. Boudreau (jboudrea@usc.edu) is a management professor at the University of Southern California's Marshall School of Business and the research director at USC's Center for Effective Organizations.

James Goodnight (jim.goodnight@sas.com) is the CEO of SAS Institute.

Michael Goold (michael.goold@ashridge.org.uk) is a director of the Ashridge Strategic Management Center.

Pamela W. Henderson (phenderson@new-edgeinc.com) is an associate professor of marketing at Washington State University and the CEO of NewEdge.

John Kastenholz is the vice president of consumer insights at Unilever.

Aradhna Krishna (aradhna@umich.edu) is the Isadore and Leon Winkelman Professor of Retail Marketing at the University of Michigan's Ross School of Business.

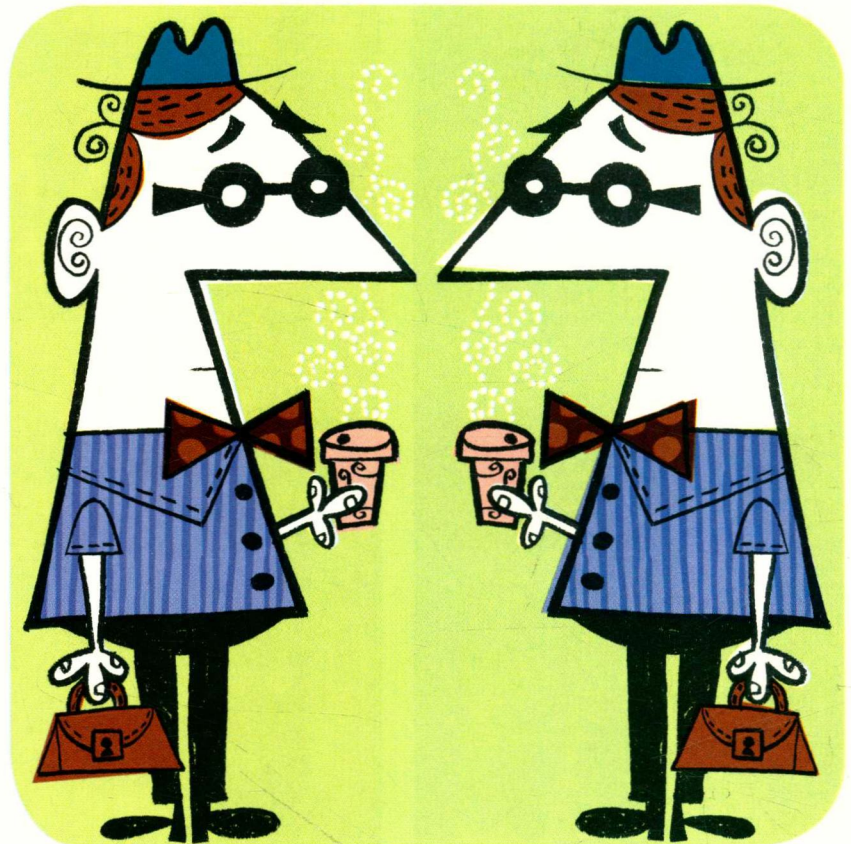
Peter M. Ramstad (pete.ramstad@personneldecisions.com) is the executive vice president for strategy and finance at Personnel Decisions International.

Robert B. Reich (reich@brandeis.edu) is University Professor at Brandeis University and the Maurice B. Hexter Professor of Social and Economic Policy at Brandeis's Heller School for Social Policy and Management. He is a former U.S. secretary of labor.

Amy Salzhauer (amy@ignitionventures.com) is the founder and CEO of Ignition Ventures.

Peter K. Schott (peter.schott@yale.edu) is an associate professor of economics at the Yale School of Management.

David Young (david.young@skylark.me.uk) is an associate at Ashridge Strategic Management Center and an independent consultant.



GRIST

The Limits of Professional Behavior

Over the past 20 years, professional service firms (PSFs) have come to look a lot like their clients. Many, now corporations themselves, operate in multiple countries and have hundreds—even thousands—of employees. A small cadre of principals sets direction, while professional administrators impose budgets and other financial controls. Functions that were once deemed integral, such as research, are outsourced or delegated to paraprofessionals. The firms' proprietors, meanwhile, have overcome their qualms about advertising their services, not to mention themselves.

Less remarked upon is the reverse. Six years ago, a book by Tom Peters exhorted managers to "Transform Your 'Department' into a Professional Service Firm Whose Trademarks Are Passion and Innovation!" But traditional businesses have long been adapting PSFs' approaches to customers, talent, and knowledge. Makers of things, such as General Electric and IBM, have been methodically turning themselves into providers of services—and in the service category, PSFs add the most value and thus command the highest margins. They also possess few depre-

MELINDA BECK