Harvard Business Review

www.hbr.org



September 2008



64 How Pixar Fosters
Collective Creativity
Ed Catmull

74 Social Intelligence and the Biology of Leadership
Daniel Goleman and Richard Boyatzis

82 Seven Ways to Fail Big Paul B. Carroll and Chunka Mui

THE RISK REVOLUTION

- 92 **THE TOOLS** The New Arsenal of Risk Management
- 102 **THE STRATEGY Owning the Right Risks**Kevin Buehler, Andrew Freeman, and Ron Hulme
- 26 FORETHOUGHT
- 39 HBR CASE STUDY
 Don't Try This Offshore
 Stephen Brown
- 53 DIFFERENT VOICE

 Making Sense of Ambiguous Evidence

 A Conversation with Documentary Filmmaker Errol Morris
- 58 THE GREEN CONVERSATION
- 113 MANAGING YOURSELF
 How to Protect Your Job in a Recession
 Janet Banks and Diane Coutu
- Where Oil-Rich Nations Are Placing
 Their Bets
 Rawi Abdelal, Ayesha Khan, and Tarun Khanna
- 134 EXECUTIVE SUMMARIES
- 140 PANEL DISCUSSION

Features

64 How Pixar Fosters Collective Creativity

Ed Catmull

Taking full advantage of the diverse talents in an organization has got to be one of the toughest management challenges there is. Pixar has succeeded more than most. Here's how.

74 Social Intelligence and the Biology of Leadership

Daniel Goleman and Richard Boyatzis

Understanding what happens in the brain when people interact provides practical insights into what makes a leader effective.

82 Seven Ways to Fail Big

Paul B. Carroll and Chunka Mui

Some strategies are so alluring that executives overlook their hazards. Here are seven popular but risky moves that have caused companies to lose billions.

THE RISK REVOLUTION

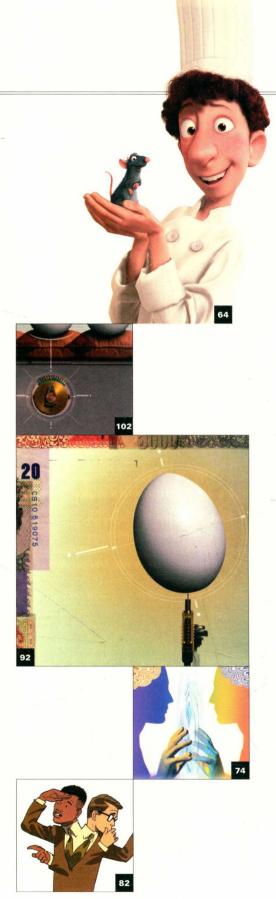
92 **THETOOLS** The New Arsenal of Risk Management

102 THE STRATEGY Owning the Right Risks

Kevin Buehler, Andrew Freeman, and Ron Hulme

The current financial crisis has heightened our consciousness of risk – and it should stay high, regardless of future circumstances, say the authors of this two-part article. Dynamically managing risk has transformed business in the financial and energy sectors; risk-savvy companies in any industry can use capital far more efficiently and generate higher shareholder returns than ever before.

continued on page 8



HBR SEPTEMBER 2008



Departments

14 COMPANY INDEX

16 FROM THE EDITOR Risky Business

Modern financial engineering and global capitalism have magnified the role of risk in corporate strategy. Tools for managing it and ways of thinking about it can turn risk into opportunity.

22 STRATEGIC HUMOR

26 FORETHOUGHT

Global capital markets demand new thinking, not just new rules...Tips on assembling teams from a top-tier rowing crew... A pocket guide to entering the carboncredit market...Advice for entrepreneurs: "Unleash your passions"...Pitfalls in design outsourcing...What working with autistic employees can teach the rest of us...Nine ways to leverage your data assets.

39 HBR CASE STUDY Don't Try This Offshore

Stephen Brown

Serendipity Associates, a U.S. managementmetaphor boutique, always thought its right-brain-driven business was immune to offshoring, but now rival Tropes R Us is threatening to flood the market with lowcost metaphors produced in Ireland. Are the creative industries in the United States losing their competitive edge? With commentary by Daniel H. Pink, John Chuang, Richard Phelps, and Charlie Wrench.

53 DIFFERENT VOICE Making Sense of Ambiguous Evidence A Conversation with Documentary Filmmaker Errol Morris

Top executives are rarely told the unvarnished truth. Getting to it takes perseverance; convincing people of it is something of an art. Morris is a master of both.

58 The Green Conversation

This spring HBR hosted a six-part online discussion about leadership and the environment. Experts led the dialogue with provocative questions; featured contributors and readers from around the globe responded with robust and lively commentaries. Here's a snapshot of what we learned.

113 MANAGING YOURSELF How to Protect Your Job in a Recession

Janet Banks and Diane Coutu Survive corporate layoffs by embracing these practical strategies.

119 BIG PICTURE

Where Oil-Rich Nations Are Placing Their Bets

Rawi Abdelal, Ayesha Khan, and Tarun Khanna

Petrodollars abound - again. This time, oil-rich nations of the Gulf have adopted ambitious investment strategies and are spending lavishly on institutional infrastructures. In doing so, they will affect the economic landscape in the West, reshape nearby markets in the Middle East, and dramatically reconfigure the Gulf home environment itself.

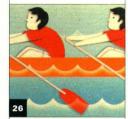
130 LETTERS TO THE EDITOR

134 EXECUTIVE SUMMARIES

140 PANEL DISCUSSION Why Buy?

Don Moyer

The key to understanding why people purchase what they do is not to ask them about their buying behavior. It's to observe them in the act of shopping.











BMW 2008 Xenon Adaptive Headlights

bmwusa.com 1-800-334-4BMW





It saw you before you turned the page. Most serious accidents occur after dark, due to limited visibility. At BMW we were determined to do something about it. Which led us to develop Xenon Adaptive Headlights. This advanced technology determines the direction you're traveling and automatically swivels the headlights accordingly, enabling you to see around corners and bends, even uphill. Xenon Adaptive Headlights, another leading idea from BMW. Learn more at bmwusa.com/ideas.

IT'S NOT JUST MONEY. IT'S PEOPLE'S MONEY.

The future isn't what it used to be. Take the decline of pensions, add rising healthcare costs, factor in the changing landscape of employer retirement plans—and America's investors are facing some formidable new challenges. What's more, they're facing them alone. Or are they? As a company founded on serving the individual investor, our focus has always been on providing help and guidance wherever people need it.

\$1.4 trillion of client assets under total firm and \$583 billion of client assets under Schwab Institutional, both as of 12/31/2007 Schwab Earnings Release.

2 million households under Schwab Investor Services, 5 million accounts under Schwab Investor Services, 5,500 independent advisors served by Schwab Institutional, 13,000 retirement and benefit plans served by Schwab Retirement and Corporate Services, and \$148 billion of employee assets under Schwab Retirement and Corporate Services, all as of 12/31/2007.

Schwab Institutional leadership among independent Registered Investment Advisors as measured by market share. Source: Cerulli Quantitative Update—Advisor Metrics, 2007. Schwab Retirement Plan Services growth rate and industry growth rate as measured by compound annual growth rate of client assets. Sources: Cerulli Associates Quantitative Update—Retirement Markets, 2007, and Schwab Financials, 2003–2007.

Charles Schwab & Co., Inc. and Charles Schwab Bank are separate but affiliated companies and subsidiaries of The Charles Schwab Corporation. Brokerage products are offered by Charles Schwab & Co., Inc., Member SIPC. Deposit products are offered by Charles Schwab Bank, Member FDIC.

EVERYWHERE THERE'S PEOPLE'S MONEY, CHARLES SCHWAB WILL BE THERE TO HELP.

And over \$1.4 trillion of it is getting our help right now.

We work directly with millions of people to help manage their money.

More than two million households invest with us through over five million investor accounts. Wherever people choose to invest—via the Internet, over the phone or through our nationwide network of branches—more than 2,500 Investment Professionals are dedicated to managing those relationships. And whatever people need, from professional portfolio management to checking accounts through Schwab Bank, we're doing what we've always done—helping individual investors look after their financial well-being.

We support more independent Registered Investment Advisors than anybody else.

Over 5,500 independent advisors rely on us for custodial, operational and trading support. With over \$583 billion in client assets, we give independent advisors the help they need so they can focus on what's best for the individual investor. Being the #1 supporter of America's fastest-growing channel is just one more way we're making sure individual investors get the help and support they need.

We're serving over 13,000 retirement and benefit plans to help employees and employers alike.

For more than 20 years, we've been helping people—and their employers—make better retirement choices. Today, we provide recordkeeping and custody services for over \$148 billion of employees' assets, and our Retirement Plan Services business is growing by 24% annually, versus an industry average of 9.8%. From start-ups to Fortune 100 companies, employers are turning to Schwab to help employees make more informed retirement decisions. Because people have enough responsibilities at work without being left on their own to make big decisions about their financial futures, too.

IT'S WHERE PEOPLE'S MONEY IS GOING.



For more information on Th

please visit www.aboutschwab.com

The Charles Schwab Corporation (Charles Schwab) provides services to retirement plan sponsors and participants through its separate but affiliated companies and subsidiaries, Schwab Retirement Plan Services, Inc., The 401(k) Companies, Inc. and its subsidiaries, Charles Schwab Trust Company, a division of the Charles Schwab Bank, and Charles Schwab & Co., Inc. Charles Schwab also provides equity compensation plan services and other financial and retirement services to corporations and executives through Charles Schwab & Co., Inc.

Brokerage Products: Not FDIC-Insured • No Bank Guarantee • May Lose Value

©2008 Charles Schwab & Co., Inc. All rights reserved. Member SIPC. (0608-4781) ADP41497-01

Features

64 How Pixar Fosters Collective Creativity

Ed Catmull

Taking full advantage of the diverse talents in an organization has got to be one of the toughest management challenges there is. Pixar has succeeded more than most. Here's how.

74 Social Intelligence and the Biology of Leadership

Daniel Goleman and Richard Boyatzis

Understanding what happens in the brain when people interact provides practical insights into what makes a leader effective.

82 Seven Ways to Fail Big

Paul B. Carroll and Chunka Mui

Some strategies are so alluring that executives overlook their hazards. Here are seven popular but risky moves that have caused companies to lose billions.

THE RISK REVOLUTION

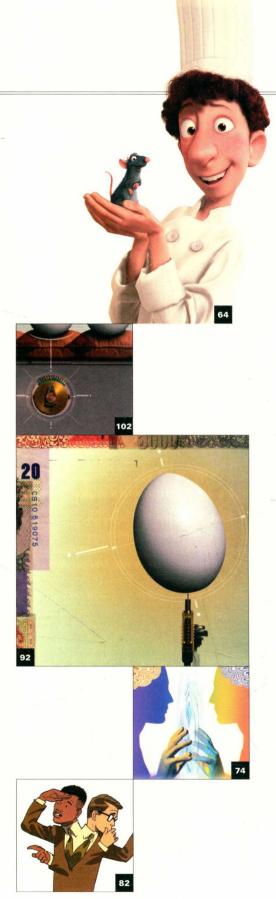
92 **THETOOLS** The New Arsenal of Risk Management

102 THE STRATEGY Owning the Right Risks

Kevin Buehler, Andrew Freeman, and Ron Hulme

The current financial crisis has heightened our consciousness of risk – and it should stay high, regardless of future circumstances, say the authors of this two-part article. Dynamically managing risk has transformed business in the financial and energy sectors; risk-savvy companies in any industry can use capital far more efficiently and generate higher shareholder returns than ever before.

continued on page 8





Developing leaders. Attracting talent. Engaging and retaining people who will contribute to your company's success and profitability. Achieving consistently high sales results.

For most organizations, these are some of today's most urgent business challenges—as well as the greatest opportunities. PI Worldwide can help with all of them.

PI Worldwide is a premiere global consulting company specializing in leadership and sales development, helping organizations uncover data-driven insights to create and sustain a high performance culture.

PI Worldwide offers a unique combination of:

- Accurate statistical assessment
- · Informed, targeted training
- Proven management tools and expert consulting

With our *People Smart. Results Driven.** approach, your company can:

- · Improve productivity across all levels
- Manage people and teams for maximum performance
- Sell more strategically—and more effectively
- · Retain and develop high potential talent
- · Grow your future leaders



www.Plworldwide.com

PREDICTIVE INDEX® • SELLING SKILLS ASSESSMENT TOOL • CUSTOMER-FOCUSED SELLING

HBR SEPTEMBER 2008



Departments

14 COMPANY INDEX

16 FROM THE EDITOR Risky Business

Modern financial engineering and global capitalism have magnified the role of risk in corporate strategy. Tools for managing it and ways of thinking about it can turn risk into opportunity.

22 STRATEGIC HUMOR

26 FORETHOUGHT

Global capital markets demand new thinking, not just new rules...Tips on assembling teams from a top-tier rowing crew...

A pocket guide to entering the carboncredit market...Advice for entrepreneurs: "Unleash your passions"...Pitfalls in design outsourcing...What working with autistic employees can teach the rest of us...Nine ways to leverage your data assets.

39 HBR CASE STUDY Don't Try This Offshore

Stephen Brown

Serendipity Associates, a U.S. management-metaphor boutique, always thought its right-brain-driven business was immune to offshoring, but now rival Tropes R Us is threatening to flood the market with low-cost metaphors produced in Ireland. Are the creative industries in the United States losing their competitive edge? With commentary by Daniel H. Pink, John Chuang, Richard Phelps, and Charlie Wrench.

53 DIFFERENT VOICE Making Sense of Ambiguous Evidence A Conversation with Documentary Filmmaker Errol Morris

Top executives are rarely told the unvarnished truth. Getting to it takes perseverance; convincing people of it is something of an art. Morris is a master of both.

58 The Green Conversation

This spring HBR hosted a six-part online discussion about leadership and the environment. Experts led the dialogue with provocative questions; featured contributors and readers from around the globe responded with robust and lively commentaries. Here's a snapshot of what we learned.

113 MANAGING YOURSELF How to Protect Your Job in a Recession

Janet Banks and Diane Coutu Survive corporate layoffs by embracing these practical strategies.

119 BIG PICTURE

Where Oil-Rich Nations Are Placing Their Bets

Rawi Abdelal, Ayesha Khan, and Tarun Khanna

Petrodollars abound – again. This time, oil-rich nations of the Gulf have adopted ambitious investment strategies and are spending lavishly on institutional infrastructures. In doing so, they will affect the economic landscape in the West, reshape nearby markets in the Middle East, and dramatically reconfigure the Gulf home environment itself.

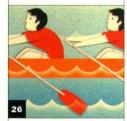
130 LETTERS TO THE EDITOR

134 EXECUTIVE SUMMARIES

140 PANEL DISCUSSION Why Buy?

Don Moyer

The key to understanding why people purchase what they do is not to ask them about their buying behavior. It's to observe them in the act of shopping.



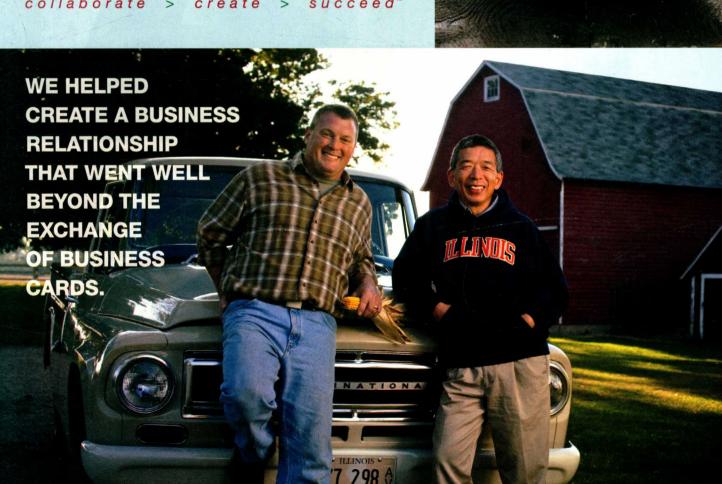






They live across the ocean from each other, but we help them conduct business like they live across the road. In Japan, a producer of premium eggs for food cooperatives needed corn for chicken feed grown to very precise standards. Cargill's Signature Growers™ program brought the egg producer together with a farmer in Illinois - who grows the corn to the customer's exact specifications. Cargill works to assure that the crop follows identity preservation protocol all the way from planting to delivery. The result is a mutually beneficial business relationship that has grown into a friendship. This is how Cargill works with customers.

collaborate > succeed™ create



A VICIOUS TORNADO. AN UPCOMING RACE. YET THE ATLANTA



MOTOR SPEEDWAY COULD REMAIN



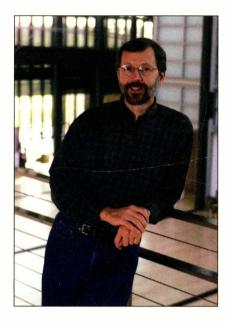
A true story: On July 6, 2005, a powerful tornado tore through Atlanta, leveling everything in its path. When it reached the
Atlanta Motor Speedway, entire sections of the track vanished. Three-and-a-half months later, the fall race weekend opened as planned. To make this happen, the people at the speedway worked in tight partnership with their
FM Global client service team. And the damage was quickly repaired. So on race day, the only wind the fans were
aware of came from the cars flying by at 170 mph. To read more true stories, visit fmglobal.com/insuranceevolved

Insurance Evolved $\operatorname{FM}^{\mathfrak{g}_{10}}$

HBR.019 SEPTEMBER 2008



On our website this month





> How Pixar Fosters Collective Creativity Listen to president Ed Catmull elaborate on his company's surprising creative processes at pixar.hbr.org.

> Seven Ways to Fail Big To learn how to avoid the most common strategy failures, download our audio slideshow at fail.hbr.org.



BLOG

> From the Front Lines This blog from HBR's senior editorial team pro-

vides discerning commentary on today's management issues and invites you to contribute your own insights. Go to editors.

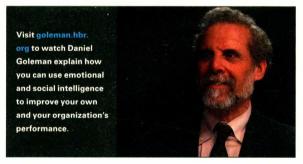
hbr.org.



> An Inside Look HBR editors share their thoughts on

articles in this issue. To listen, go to editorspreview.hbr.org.

> Social Intelligence and the Biology of Leadership



ALWAYS AT HBR.ORG

SUBSCRIBER ACCESS

If you are a subscriber, you have 12 months' worth of digital back issues at your disposal. Click on any and you will be prompted to enter your subscriber ID information.

PREMIUM SUBSCRIPTION

A premium subscription to Harvard Business Review gives readers access to a searchable archive of more than 2,700 articles. To sign up, click on "Subscribe Today" in the upper-right corner of the home page.

HBR IN OTHER LANGUAGES

Visit "HBR in Other Languages" on the home page for information about the 11 licensed translated editions of Harvard Business Review.

HBR ANSWERS

The editors of HBR have posted questions that managers ask about their biggest challenges, along with selected articles that address each one. Readers can suggest questions or topics by clicking on "E-mail Us" on the HBR Answers page.



Organizations in this issue are indexed to the first page of each article in which they are mentioned. Subsidiaries are listed under their own names.

Abu Dhabi Future Energy	119
Abu Dhabi Investment Authority	
Abu Dhabi Knee and Sports Medicine Centre	119
Agfa	82
Aldar Properties	119
Amaranth Advisors	
Ames Department Stores	82
Anadarko	
Arch Communications	82
Avon	82
BP	92
Bright Horizons Family Solutions	26
Cambridge University Boat Club	26
Chesapeake Energy	92
Citigroup	119
Conseco	82
Devon Bank	119
Dubai Aluminum	119
Duke Energy	92
Dynegy	92
Eastman Kodak	82
El Paso	92
Emirates Aluminum	119
Enron	92
European Islamic Investment Bank	119
Faisal Private Bank	119
FedEx	82
Ferrari	119
Flores & Rucks	92
Freddie Mac	119
Fuji	82
G.C. Murphy	82
General Electric	82
Gillett Holdings	82
Goldman Sachs	
Green Tree Financial	82
IBM	
Industrial Light & Magic	64

Islamic Development Bank 119 Jordan Islamic Bank 119 Kuwait Finance House 119 Laidlaw 82 Landor Associates 39 Lazard Frères 92
Kuwait Finance House 119 Laidlaw 82 Landor Associates 39
Laidlaw
Landor Associates
Lazard Frànce 92
Lehman Brothers92
Loewen Group82
Lucasfilm64
Merrill Lynch92
Microsoft
Mobile Media82
Motorola82
Mubadala Development Company119
Oglebay Norton82
Pillowtex82
Pitney Bowes82
Pixar64
Premcor92
Premcor
- 1 - 1 - 2 - 1 - 1 - 1 - 1 - 1 - 1 - 1
Provident Life and Accident Insurance82
Provident Life and Accident Insurance
Provident Life and Accident Insurance 82 Quaker Oats. 82 Royal Bank of Scotland. 92
Provident Life and Accident Insurance 82 Quaker Oats. 82 Royal Bank of Scotland. 92 RWE 92
Provident Life and Accident Insurance 82 Quaker Oats. 82 Royal Bank of Scotland. 92 RWE 92 Saudi Aramco. 119
Provident Life and Accident Insurance 82 Quaker Oats. 82 Royal Bank of Scotland. 92 RWE 92 Saudi Aramco. 119 Saudi Basic Industries Corporation. 119
Provident Life and Accident Insurance. 82 Quaker Oats. 82 Royal Bank of Scotland. 92 RWE. 92 Saudi Aramco. 119 Saudi Basic Industries Corporation. 119 Sempra. 92
Provident Life and Accident Insurance. 82 Quaker Oats. 82 Royal Bank of Scotland. 92 RWE. 92 Saudi Aramco. 119 Saudi Basic Industries Corporation. 119 Sempra. 92 Snapple. 82
Provident Life and Accident Insurance. 82 Quaker Oats. 82 Royal Bank of Scotland. 92 RWE. 92 Saudi Aramco. 119 Saudi Basic Industries Corporation. 119 Sempra. 92 Snapple. 82 Southwest Airlines. 74, 102
Provident Life and Accident Insurance. 82 Quaker Oats. 82 Royal Bank of Scotland. 92 RWE 92 Saudi Aramco. 119 Saudi Basic Industries Corporation. 119 Sempra. 92 Snapple. 82 Southwest Airlines. 74, 102 Specialisterne. 26
Provident Life and Accident Insurance. 82 Quaker Oats. 82 Royal Bank of Scotland. 92 RWE 92 Saudi Aramco. 119 Saudi Basic Industries Corporation. 119 Sempra. 92 Snapple. 82 Southwest Airlines 74, 102 Specialisterne 26 Suncor. 92
Provident Life and Accident Insurance 82 Quaker Oats 82 Royal Bank of Scotland 92 RWE 92 Saudi Aramco 119 Saudi Basic Industries Corporation 119 Sempra 92 Snapple 82 Southwest Airlines 74, 102 Specialisterne 26 Suncor 92 Tosco 92
Provident Life and Accident Insurance 82 Quaker Oats 82 Royal Bank of Scotland 92 RWE 92 Saudi Aramco 119 Saudi Basic Industries Corporation 119 Sempra 92 Snapple 82 Southwest Airlines 74, 102 Specialisterne 26 Suncor 92 Tosco 92 TXU 102
Provident Life and Accident Insurance 82 Quaker Oats 82 Royal Bank of Scotland 92 RWE 92 Saudi Aramco 119 Saudi Basic Industries Corporation 119 Sempra 92 Snapple 82 Southwest Airlines 74, 102 Specialisterne 26 Suncor 92 TXU 102 UBS 92
Provident Life and Accident Insurance 82 Quaker Oats. 82 Royal Bank of Scotland. 92 RWE 92 Saudi Aramco 119 Saudi Basic Industries Corporation 119 Sempra 92 Snapple 82 Southwest Airlines 74, 102 Specialisterne 26 Suncor 93 TXU 102 UBS 92 Unum 82
Provident Life and Accident Insurance 82 Quaker Oats. 82 Royal Bank of Scotland. 92 RWE 92 Saudi Aramco 119 Saudi Basic Industries Corporation 119 Sempra 92 Snapple 82 Southwest Airlines 74, 102 Specialisterne 26 Suncor 92 TXU 102 UBS 92 Unum 82 USAir 82

Williams	92
Zain	119
AUTHOR AFFILIATIONS	
Aquent	39
Aspen Institute	
Boston Psychoanalytic Society and Institute	
Bright Horizons Family Solutions	
British Consulate-General, Houston Office	
Cambridge University's Judge Business School	
Case Western Reserve University	
Center for Environmental Innovation	
Chase Manhattan Bank	
Climate Wedge	
Consortium for Research on Emotional Intelligence	
in Organizations	74
Context Magazine	
Diamond Management & Technology Consultants	
Emeraldwise	
FleetBoston Financial	113
Harvard Business School	58, 119
Herman Miller	58
IDEO	58
Landor Associates	39
Marks & Spencer	58
McKinsey92,	102, 113
McKinsey Global Institute	26
MMA Renewable Ventures	58
Navesink Consulting Group	26
Pixar	64
PricewaterhouseCoopers	39
Rutgers University's Graduate School of Professional	
and Applied Psychology	74
Saratoga	39
Specialisterne	26
Tulane University's A.B. Freeman School of Business.	26
University of Michigan	58
Walt Disney Animation Studios	64



"I hope everyone appreciates the effort I make carrying this big box around the office all day."