

Harvard Business Review

www.hbr.org



November 2006

**AVOID
TRAPS**

- 72 **Innovation: The Classic Traps**
Rosabeth Moss Kanter
- 84 **Managing Multicultural Teams**
Jeanne Brett, Kristin Behfar, and Mary C. Kern
- 92 **Breaking the Trade-Off Between Efficiency and Service**
Frances X. Frei
- 106 **Facing Ambiguous Threats**
Michael A. Roberto, Richard M.J. Bohmer, and Amy C. Edmondson
- 114 **Disaster Relief, Inc.**
Anisya Thomas and Lynn Fritz

22 FORETHOUGHT

39 HBR CASE STUDY
The Reign of Zero Tolerance
Ben Gerson

55 BIG PICTURE
How to Manage Urban School Districts
Stacey Childress, Richard Elmore, and Allen Grossman

130 BEST PRACTICE
How Well-Run Boards Make Decisions
Michael Useem

141 TOOL KIT
Mastering the Three Worlds of Information Technology
Andrew McAfee

154 EXECUTIVE SUMMARIES

160 PANEL DISCUSSION

**DON'T GET
CAUGHT**

...page 72



**WE KNEW WE HAD TO HAVE THE
CHOPS TO HANG WITH THIS CROWD.**

www.cargillcreates.com

© 2006 Cargill, Incorporated

November 2006

72 Innovation: The Classic Traps

Rosabeth Moss Kanter

Every few years, it seems, managers rediscover innovation as a revenue-generating, profit-making pursuit. Unfortunately, they often make the same mistakes as their predecessors when executing their innovation efforts. Here's how to avoid the pitfalls and create breakthrough products and services for your organization.

84 Managing Multicultural Teams

Jeanne Brett, Kristin Behfar, and Mary C. Kern

Simple, often subtle differences arising from culture can cause serious problems on multicultural teams. The good news is, they can be diagnosed early—and the right strategy for dealing with them can actually strengthen a team's effectiveness.

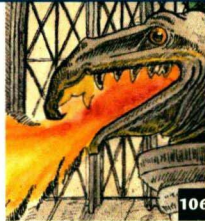
92 Breaking the Trade-Off Between Efficiency and Service

Frances X. Frei

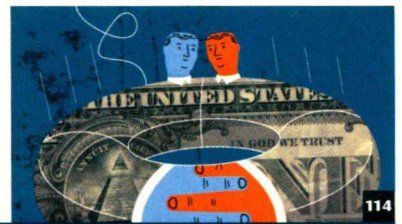
Customers introduce tremendous variability to most service businesses. Learning to manage that variability is central to making a service offering profitable—and it doesn't have to come down to a choice between operational efficiency and a superior customer experience.



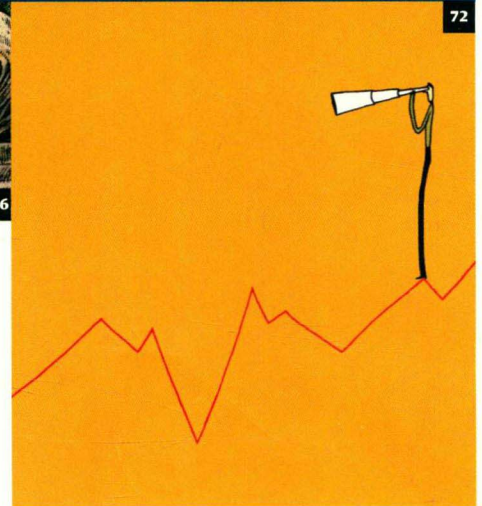
92



106



114



72

106 Facing Ambiguous Threats

Michael A. Roberto, Richard M.J. Bohmer, and Amy C. Edmondson

When an event's potential for causing a company harm is unclear, managers tend to ignore or discount the risk. Such an approach can be catastrophic.

114 Disaster Relief, Inc.

Anisya Thomas and Lynn Fritz

In the wake of a humanitarian crisis, many companies respond generously. Imagine how much further their contributions would go, however, if they thought systematically about how and to whom they should contribute before the next disaster strikes.

continued on page 10



84

November 2006

12 **COMPANY INDEX**

14 **FROM THE EDITOR**

The Great Wheel of Innovation

A paradox about innovation is that there's nothing new about it—about the process, that is. Both the well-trodden ways to do it wrong and the proven ways to get it right are worth revisiting.

22 **FORETHOUGHT**

Hedge risk in China systematically...
A vast new international market...
Customer communities pay off...
Is the assembly line really efficient?...
Get control of your discounts...
Focus knowledge-management investments more on employees and less on systems.

39 **HBR CASE STUDY**

The Reign of Zero Tolerance

Ben Gerson

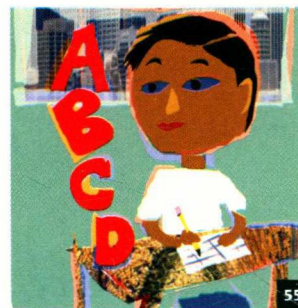
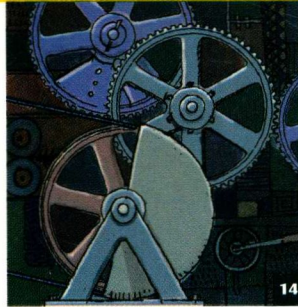
When Simon Pemberton is summarily fired from Applied Devices for unauthorized e-mailing and Internet use, colleagues wonder if AD's policies have grown too harsh. Top management stands by those policies, arguing that safety and the company's reputation are at stake. Should AD modify its zero-tolerance program? With commentary by Janet Parker, Eugene Volokh, Jean Halloran, and Michael G. Cherkasky.

55 **BIG PICTURE**

How to Manage Urban School Districts

Stacey Childress, Richard Elmore, and Allen Grossman

In the debate over how to fix U.S. urban school systems, the district office is often seen as part of the problem. But only the district office can create both a strategy for improving instruction at every school and an organization to implement it.



102 **STRATEGIC HUMOR**

130 **BEST PRACTICE**

How Well-Run Boards Make Decisions

Michael Useem

Drawing lessons from other companies' best governance practices is often difficult because they're so closely guarded. A detailed inside look at three boardroom decisions makes it much easier.

141 **TOOL KIT**

Mastering the Three Worlds of Information Technology

Andrew McAfee

Managers today are overwhelmed by the number of new technologies in the marketplace. To sort through the profusion, they should start by understanding three classifications of IT and then learn how to select, adopt, and exploit the ones that will give their organizations the capabilities they need.

151 **LETTERS TO THE EDITOR**

Few if any traditional sales-force-automation vendors complement their sales methodologies with specific presales processes. Instead of trying to squeeze the last drops of improvement out of sales reps, companies can boost revenue quickly and cost-effectively by focusing on presales operations.

154 **EXECUTIVE SUMMARIES**

160 **PANEL DISCUSSION**

Homo Uneconomicus

Don Moyer

Traditional economics is built on the notion of economic man: rational, well-informed, coolly pursuing his own interests. But no one actually makes decisions like that.



DELUXE BAR-B-Q PORK

V

Some folks barbeque for fun. Others do it for a living. Something they all share are tough standards for the ribs, pork shoulders and boneless loins they use. Cargill learned from chefs and grocers that people want more flavorful pork that cooks up tender and juicy. We developed it using special feeds, growing processes and selection techniques. Barbeque enthusiasts say they like the new pork. What they won't tell us are their secrets for cooking it. This is how Cargill works with customers.

collaborate > create > succeed



Cargill[™]

Nourishing Ideas. Nourishing People.[™]



**Pitney Bowes mailstream solutions
manage the flow of confidential
medical records, making customers
feel more secure – even the smallest.**

His medical history is just beginning. But should this information ever fall into the wrong hands, it's more than a clerical mix-up, it's a legal nightmare. Using our file-based processing solutions, healthcare service providers can deliver government-mandated patient communications with rigorous

©2006 Pitney Bowes Inc. All Rights Reserved.

What will we put our stamp on next?

accuracy. So everyone breathes easier. This is just one of the ways Pitney Bowes is merging the boundaries of mail and data into mailstream solutions that are helping many Fortune 500 companies stay compliant, competitive and profitable. What's next? Visit pb.com/whatsnext and see for yourself.

 **Pitney Bowes**
Engineering the flow of communication™

8092171

38

HU

HUMAN

7E+09

MEET THE ELEMENT OF CHANGE. A world that includes the Human Element, along

with hydrogen, oxygen and the other elements, is a very different world indeed. Suddenly,



chemistry is put to work solving human problems. Bonds are formed between aspirations

and commitments. And the energy released from reactions fuels a boundless spirit



that will make the planet a safer, cleaner, more comfortable place for generations to come. A

world that welcomes change is about to meet the element of change: the Human Element.

November 2006

72 Innovation: The Classic Traps

Rosabeth Moss Kanter

Every few years, it seems, managers rediscover innovation as a revenue-generating, profit-making pursuit. Unfortunately, they often make the same mistakes as their predecessors when executing their innovation efforts. Here's how to avoid the pitfalls and create breakthrough products and services for your organization.

84 Managing Multicultural Teams

Jeanne Brett, Kristin Behfar, and Mary C. Kern

Simple, often subtle differences arising from culture can cause serious problems on multicultural teams. The good news is, they can be diagnosed early—and the right strategy for dealing with them can actually strengthen a team's effectiveness.

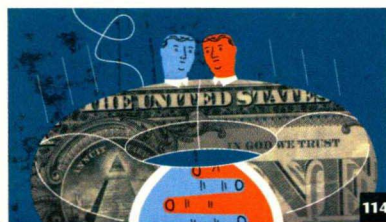
92 Breaking the Trade-Off Between Efficiency and Service

Frances X. Frei

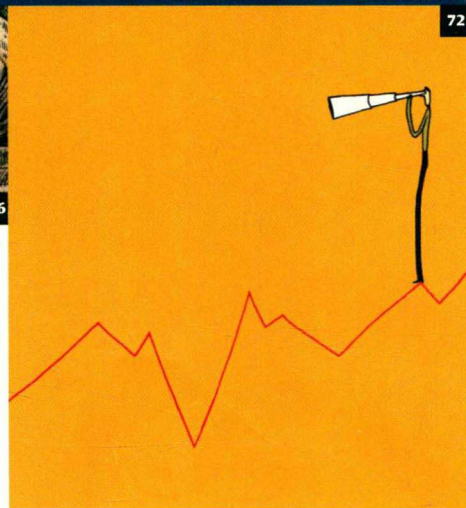
Customers introduce tremendous variability to most service businesses. Learning to manage that variability is central to making a service offering profitable—and it doesn't have to come down to a choice between operational efficiency and a superior customer experience.



106



114



72

106 Facing Ambiguous Threats

Michael A. Roberto, Richard M.J. Bohmer, and Amy C. Edmondson

When an event's potential for causing a company harm is unclear, managers tend to ignore or discount the risk. Such an approach can be catastrophic.

114 Disaster Relief, Inc.

Anisya Thomas and Lynn Fritz

In the wake of a humanitarian crisis, many companies respond generously. Imagine how much further their contributions would go, however, if they thought systematically about how and to whom they should contribute before the next disaster strikes.



92



84

continued on page 10

Remember when technology
had the **ability to amaze** you?



Believe again.

Now you can believe in a new kind of IT management. Unified and simplified to make your business more productive, nimble, competitive and secure.

We all know that companies are demanding more from IT — expecting IT to be a strategic and competitive advantage. Yet today's complex IT environments require you to manage across point solutions, siloed organizations and redundant technology.

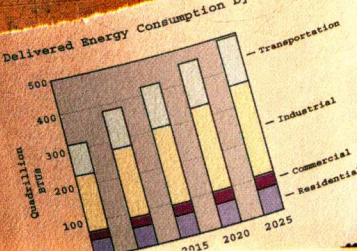
A better alternative? Choose an integrated approach to IT management. An approach in which software unifies your people, processes and technology to increase efficiency and optimization. Only one global software company can do that. CA, formerly known as Computer Associates, has focused solely on IT management software for over 30 years.

Our technology vision that makes this promise real is called Enterprise IT Management, or EITM. At its heart is the CA Integration Platform — a common foundation of shared services that gives you real-time, dynamic control and flexibility. Its greatest benefit? CA software solutions come to you already integrated, and able to integrate with your existing technology to optimize your entire IT environment.

Ultimately, a well-managed IT environment gives you the visibility and control you need to manage risk, manage costs, improve service and align IT investments. To learn more about how CA and our wide array of partners can help you unify and simplify your IT management, visit ca.com/unify.

Americans spend over one million dollars
on energy every minute.

So who has the power to change that?

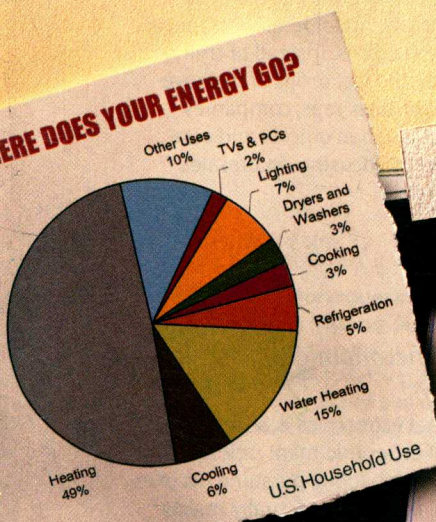


Because of surging economies in the developing world and continued growth among the industrialized nations, global energy use is climbing. As a result, supplies are tight. Prices are rising. And energy users are calling for viable alternatives.

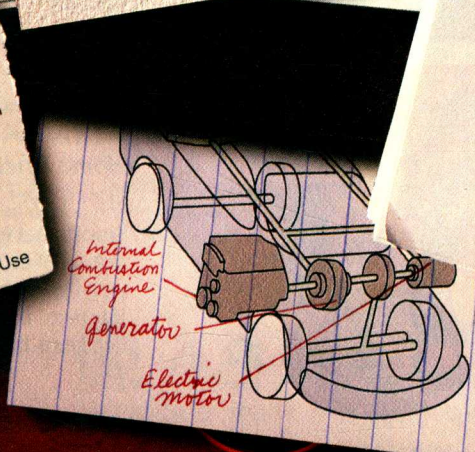
The good news is we've got a huge source of alternative energy all around us. It's called conservation, and it's the lowest cost new source of energy we have at hand. A reduction of just 5% of global energy use would save us the equivalent of over 10 million barrels of oil a day. Clearly, saving energy is like finding it. So how do we do it?

Incorporating energy efficient technology into new construction could reduce consumption by 40%. Governments and businesses must reduce their own energy use and promote conservation to their citizens and employees. Further improvements in fuel efficiency will play a crucial role, too. And the average person wields incredible power when it comes to conserving energy, from driving slower to switching to more efficient home appliances.

Of course, not only does using less energy mean there's more fuel to go around, it also means fewer greenhouse gas emissions. The fact is, if everyone began conserving today, we'd see results immediately. We've taken some of the steps needed to get started but we need your help to get the rest of the way.



willyoujoinus.com



Conservation Facts:

- If everyone reduced their driving speed from 65 to 55 mph, we'd save three million gallons of gas a day.
- Replacing one incandescent lightbulb with a compact fluorescent lamp would save 500 pounds of coal and over a 1/2 ton of CO₂ emissions.
- If just one in 10 homes used ENERGY STAR®-qualified appliances, the environmental benefit would be like planting 1.7 million new acres of trees.

⚠️ Chevron Steps Taken:

Saving our own energy:

- Since 1992, Chevron has improved energy efficiency by 24%
- We use cogeneration technology at our refineries to produce additional electricity from otherwise wasted energy

Saving other people's energy:

Chevron Energy Solutions is a separate, proven business dedicated to energy efficiency.

Success stories include:

- Improvements that will lower the Northern CA postal service's electricity spending by 46%
- Helping the U.S. government save taxpayers \$151 million while reducing greenhouse gas emissions by an expected 1.5 million tons

Chevron
Human energy™

November 2006

12 **COMPANY INDEX**

14 **FROM THE EDITOR**

The Great Wheel of Innovation

A paradox about innovation is that there's nothing new about it—about the process, that is. Both the well-trodden ways to do it wrong and the proven ways to get it right are worth revisiting.

22 **FORETHOUGHT**

Hedge risk in China systematically...
A vast new international market...
Customer communities pay off...
Is the assembly line really efficient?...
Get control of your discounts...
Focus knowledge-management investments more on employees and less on systems.

39 **HBR CASE STUDY**

The Reign of Zero Tolerance

Ben Gerson

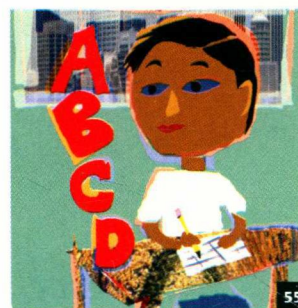
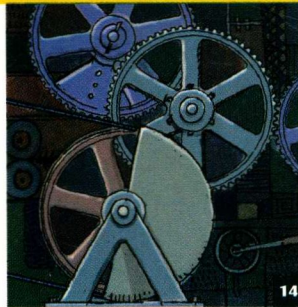
When Simon Pemberton is summarily fired from Applied Devices for unauthorized e-mailing and Internet use, colleagues wonder if AD's policies have grown too harsh. Top management stands by those policies, arguing that safety and the company's reputation are at stake. Should AD modify its zero-tolerance program? With commentary by Janet Parker, Eugene Volokh, Jean Halloran, and Michael G. Cherkasky.

55 **BIG PICTURE**

How to Manage Urban School Districts

Stacey Childress, Richard Elmore, and Allen Grossman

In the debate over how to fix U.S. urban school systems, the district office is often seen as part of the problem. But only the district office can create both a strategy for improving instruction at every school and an organization to implement it.



102 **STRATEGIC HUMOR**

130 **BEST PRACTICE**

How Well-Run Boards Make Decisions

Michael Useem

Drawing lessons from other companies' best governance practices is often difficult because they're so closely guarded. A detailed inside look at three boardroom decisions makes it much easier.

141 **TOOL KIT**

Mastering the Three Worlds of Information Technology

Andrew McAfee

Managers today are overwhelmed by the number of new technologies in the marketplace. To sort through the profusion, they should start by understanding three classifications of IT and then learn how to select, adopt, and exploit the ones that will give their organizations the capabilities they need.

151 **LETTERS TO THE EDITOR**

Few if any traditional sales-force-automation vendors complement their sales methodologies with specific presales processes. Instead of trying to squeeze the last drops of improvement out of sales reps, companies can boost revenue quickly and cost-effectively by focusing on presales operations.

154 **EXECUTIVE SUMMARIES**

160 **PANEL DISCUSSION**

Homo Uneconomicus

Don Moyer

Traditional economics is built on the notion of economic man: rational, well-informed, coolly pursuing his own interests. But no one actually makes decisions like that.

Double the value of your yacht.



IWC
SCHAFFHAUSEN
SINCE 1868

This would do it too.



Portuguese Automatic. Ref. 5001: This high-tech precision instrument is a must for any ship: Glance through the sapphire glass back cover to see how in no time, the automatic Pellaton winding system builds up a power reserve of seven days. As you can see on the power reserve display. It is also water-resistant to a depth of 30 metres. Can you say as much for your yacht? **IWC. Engineered for men.**

Mechanical manufactured movement | Automatic Pellaton winding system (figure) | Seven days' continuous running | Power reserve display | Date | Rotor with 18 ct. yellow gold medallion | Antireflective sapphire glass | Sapphire glass back cover | 18 ct. rose gold



⌚ ALPHA OMEGA

AMERICA'S WATCH & DIAMOND SPECIALISTS

BURLINGTON MALL • NATICK MALL • PRUDENTIAL CENTER • HARVARD SQUARE • (617) 864-1227

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.

Abbott Laboratories	114	GlaxoSmithKline	114	Starbucks	92
Agilent	39	Google	22	Steelcase	92
AID India	114	Harrisburg (Pennsylvania) School District	55	SUNY Buffalo	22
Airbus	130	HBOS	130	Sysco	141
Aldine (Texas) Independent School District	55	HCL	114	Team New Zealand	141
AlliedSignal	72	HealthSouth	130	Tetra Pak	72
American Airlines	72	Hershey	141	3M	72, 114
American National Red Cross	114	Hipotecaria Nacional	22	Tiffany & Company	92
AmeriCares Foundation	114	Home Depot	114	Timberland	72
AmSouth Bank	39	Honeywell	72	Time Incorporated	72
Anne Arundel County (Maryland) Public Schools	55	IBM	72	Time Warner	72
AOL	72	ICICI Bank	22	TNT	114
Apple	72	Intel	72, 106	Toyota	72
Arrow Electronics	72	Interfaith League Against Poverty	114	Turner Broadcasting	72
AT&T Worldnet	72	International Committee of the Red Cross	114	Tyco International	130
Bank of America	22, 72	Jiffy Lube	92	United Nations	114
Bank of Boston	72	Johnson & Johnson	114	University of Michigan	22
Baptist Memorial Hospital (Memphis)	106	Kodak	106	Univision Communications	22
Battelle	22	Kraft Foods	72	UPS	114
BBC	72	La Curacao	22	U.S. Defense Intelligence Agency	22
BBVA	22	Leo Burnett	72	U.S. Food and Drug Administration	106
Bill & Melinda Gates Foundation	55	Linn Products	22	Wachovia	92
BMW	141	LOMO	22	Wal-Mart	22
Boeing	130	Long Beach (California) Unified School District	55	Washington Hospital Center	72
Boston Public Schools	55	Los Angeles Police Department	39	Wells Fargo	22, 92
British Airways	114	Los Grobo Agropecuaria	141	Western Union	72
Business Roundtable	114	Lowe's	114	Williams-Sonoma	22
CARE	114	Lucent Technologies	72	Wipro	114
CBS	72	McDonald's	22	WorldCom	130
Cemex	22, 72	MedStar Health	72	World Community Grid	72
Charleston County (South Carolina) School District	55	Memphis (Tennessee) City Schools	55	World Economic Forum	114
Chicago Public Schools	55	Merck	106	World Food Programme	114
Cisco Systems	141	Microsoft	22, 72	World Health Organization	114
Cisneros	22	Montgomery County (Maryland) Public Schools	55	World Trade Organization	22
Citigroup	22, 114	Morgan Stanley	106	World Vision	114
Coca-Cola	72, 114	MTV Networks	72	Yahoo	22
Corporations for Humanity	114	NASA	106	Zipcar	92
Crossroads International	114	Nestec	114		
CVS	141	Netflix	92		
Danaher	114	Nike	141		
Danone	114	Novartis	22, 72		
Dell	92	Ocean Spray Cranberries	72		
Denver Public Schools	55	Oxfam GB	114		
DHL	114	Parsons Brinckerhoff	114		
Disaster Resource Network	114	Partnership for Disaster Response	114		
Disney	130	Partnership for Quality Medical Donations	114		
Dresdner Kleinwort	141	Pfizer	114		
Ducati Motor	22, 141	Pharmaciens Sans Frontières	114		
Duval County (Florida) School District	55	Pillsbury	72		
eBay	22, 92	PNC Financial Services Group	72		
Educational Testing Service	22	Portland (Oregon) Public Schools	55		
Electricité de France	106	Procter & Gamble	72		
Electronic Arts	106	Project HOPE	114		
Enron	130	Publicis USA	72		
Fast Retailing	114	Quaker Oats	72		
FedEx	114	Reuters	72		
Fidelity Investments	106	Rolls-Royce	130		
First Community Bank	72	Saatchi & Saatchi	72		
First Union	92	Sabre	72		
FoxMeyer Drug	141	San Diego (California) Unified School District	55		
Fritz Institute	114	San Francisco Unified School District	55		
Gap	72	Save the Children	114		
Gateway	92	Schick	72		
General Electric	72, 130	School District of Philadelphia	55		
General Mills	72	Schwinn	106		
General Motors	72	Seagate Technology	72		
Gillette	72	Southwest Airlines	92		

AUTHOR AFFILIATIONS

Agilent	39
AmSouth Bank	39
<i>Annals of Improbable Research</i>	22
Babson College	22
Baruch College's Zicklin School of Business	84
Bryant University	106
Eurasia Group	22
Fritz Institute	114
Hartwell Associates	22
Harvard Business School	55, 72, 92, 106, 141
Harvard Graduate School of Education	55
Indian School of Business	22
MarketShare	22
Marsh & McLennan	39
Newsweek International	22
Northwestern University's Kellogg School of Management	84
Rice University's Jesse H. Jones Graduate School of Management	22
UCLA School of Law	39
University of California at Irvine's Paul Merage School of Business	84
University of Pennsylvania's Wharton School	22, 130
University of Texas at Austin's McCombs School of Business	22
University of Zurich	22



Camelot Highlands Estate, Santa Maria Valley



We built this hawk a home, now he works for us.

Not too many years ago the Red Tail Hawk was a rarity in this area. Overdevelopment and unhealthy farming practices had chased most of them away.

In 1996, my wife and co-proprietor, Barbara, and I re-introduced both the Red Tail Hawk and the Peregrine Falcon back into the land that was theirs in the first place. Watching free creatures flourish in nature brings a joy to my family that's hard to describe. We built hundreds of raptor perches in our vineyards to give these birds

shelter and a place to raise their young. They repay us by helping our vineyards thrive in natural balance.

How does this help us in our pursuit of making world-class wines? Simple. Natural farming solutions lead to a healthier environment. A healthier environment gives us richer soil and stronger vines. Stronger vines produce higher quality grapes, and superior wines...for years to come. I understand that many of you enjoy the taste of our wines but aren't sure why. Hopefully, I can help with **A Taste of the Truth.**

Ass Jackson