GAME-CHANGING IDEAS

'THERE IS NO MORE NORMAL'

Breakthrough management ideas for a world in which the game will never be the same

By Jena McGregor

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John Chambers knows what it feels like to survive a crash. In 2000, Cisco Systems had the largest market cap in the world and more than 50% annual sales growth. Then the dot-com bubble burst, and the Cisco chief executive watched the networking giant's stock drop 86%, from 80 to just over 11 by September 2001. Chambers laid off thousands of employees, shrank the number of suppliers, and simplified or jettisoned many products. He also radically changed the way he managed, turning a command-and-control hierarchy into a more democratic organizational structure. The company emerged from that recession more profitable than ever and went on to outperform many tech rivals. In retrospect, Chambers wonders if he could have done even more. "Without exception," he says, "all of my biggest mistakes occurred because I moved too slowly."

The challenge for many business leaders is figuring out what moves to make now. Whether you see signs of life in the economy or think the worst is yet to

come, there's no question that the game has changed for business. The tools managers once used with great success, from how they pay their people to where they seek out new product innovations, are being reevaluated. Manufacturing processes that worked seamlessly a year ago may be a recipe for piled-up inventory as spending slows. And strategies once deemed unthinkable, such as cutting the salaries of rank-and-file managers, are being embraced by some of the world's largest companies, including FedEx and Hewlett-Packard.

Our special issue on breakthrough management ideas examines how leaders are responding to a fast-shifting world. At a time when many managers have already shored up cash, downsized risk, and found ways to cut costs while enhancing execution, the smart ones are looking to position themselves for the future. On the following pages, we outline bold new ideas and approaches that have heightened relevance in today's changing landscape. We have organized these ideas into the three areas we believe reflect top priorities for business right now—strategies for driving growth, methods for managing talent, and ideas for improving relationships with customers and suppliers. We profile game-changing managers—the people making an impact with radical ideas. And we highlight blue-sky concepts that might one day alter how business is done.

"WITHOUT EXCEPTION, ALL OF MY BIGGEST MISTAKES OCCURRED BECAUSE I MOVED TOO SLOWLY" CISCO CEO JOHN CHAMBERS

After all, the best businesses have to do more than just survive this recession. Jeffrey Immelt, General Electric's chief executive officer, believes that what the corporate world faces now is a fundamental "reset." He argues that the shift in the financial services sector and the increased role of government in business "will be with us for the rest of our careers."

He's right. Many consumers will be forced to accept a more frugal lifestyle for years to come. Sectors such as retail, housing, media, and manufacturing are being transformed. And layoffs could permanently alter not just the size of some companies but also the nature of relationships between employees and their bosses.

Smart leaders recognize that they can use this crisis as a catalyst to spark new ways of thinking and doing business. Niko Gamier, co-founder of consultancy Katzenbach Partners, notes that the challenge is to look beyond the critical work of plugging financial holes to forge fresh strategies. Right now, he argues, "people are using approaches that are insufficiently powerful to get them where they need to go." Some CEOs are determined to avoid that trap. Ray Davis, who heads regional bank Umpqua Holdings, asserts that "there is no more normal." His top priority: position Umpqua to succeed in the coming years. Despite the turmoil, he has launched an eco-oriented lending unit to fund green ventures and is building an asset-management division. The Oregon bank is suffering like many of its peers, though it didn't offer subprime loans to customers. But

A HISTORY OF BIG IDEAS

Some of the most powerful and lasting management methods were launched during tough times, when companies needed new ways to manage costs and grow. Here is a look back at some of the biggest ideas over the past 100 years.

1910

THE ASSEMBLY LINE

With demand soaring for his Model T, Henry Ford took cues from brewers' conveyor systems and slaughterhouses' overhead trolleys to build his assembly line, increasing annual production from 78,000 cars in 1910 to 2 million by the 1920s.

1920

MARKET SEGMENTATION

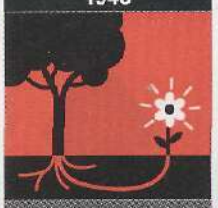
General Motors CEO Alfred P. Sloan managed GM's car models through loosely monitored "divisions," which operated as separate companies with Sloan's oversight, laying the groundwork for today's corporation.

1931

BRAND MANAGEMENT

After Procter & Gamble began targeting soap brands to different demographics, it set up brand management, an organizational structure that makes individual managers responsible for each brand's success.

1943



SKUNK WORKS

To build a new fighter jet in just 143 days, Lockheed created an organization called Skunk Works, which used small groups and advance funding to work with little interference from its corporate parent.

1950s

LEAN MANUFACTURING

After a 1950 strike Toyota workers were given lifetime employment. Manager Taiichi Ohno developed ways to up efficiency without cutting jobs, leading to "pull production" in 1954 and "Total Quality Control" in 1961.

Data: *Giant Steps in Management: Innovations that change the way we work,* by Michael Mol and Julian Birkinshaw; companies

doing nothing beyond hunkering down simply isn't an option. "I feel like I'm sitting in the middle of a railroad track," says Davis." Standing still is how you kill the company."

Consider the approach taken by Gerard Kleisterlee, CEO of Royal Philips Electronics. While his company has long sold its health-care equipment, lighting, and electronics in developing countries, Kleisterlee is shifting more people, advertising dollars, and research to developing regions this year. In addition to cutting costs, the hope is that the benefits will trickle back to Europe and North America. As he puts it: "We're looking at opportunities to bring some of what we have [developed for] emerging markets" to the rest of the world.

With U.S. and European markets in deep freeze, companies are even more interested in tracking market trends in emerging economies. About a year ago, MasterCard launched a process it calls "dynamic strategy." It created seven global networks that study developments such as technology, consumer behavior, and business spending. The heads of each network present their findings at twice-yearly forums attended by MasterCard's top brass. Already, the initiative is helping executives understand the impact of developments such as payments by cell phone. "Normally those smaller markets get pushed to the side," says Senior Vice-President Randy Shuken, who oversees the project. Even simple technology solutions, he explains, "could affect our industry fundamentally."

WORKING WITH OUTSIDERS

As the old methods fall short, executives need to bring a wider array of skills and backgrounds to the table. Companies are testing fresh methods to develop global leaders while tapping innovative collaboration tools and social networks to speed up productivity and decision-making. Perhaps no company has done more in this vein than Cisco. As part of his move to democratize management, Chambers set up a new hierarchy within the company. "Councils" are teams of executives who make decisions on $10 billion opportunities. "Boards" consist of executives who have authority to make calls on $1 billion bets, and "working groups" are organized to deal with a specific issue for a limited period of time. Chambers—who typically isn't involved in the decisions—believes his approach is a path others will need to follow. "When you have command and control by the top 10 people, you can only do one or two things at a time," he says. "The future is about collaboration and teamwork and making decisions with a replicable process that offers scale, speed, and flexibility."

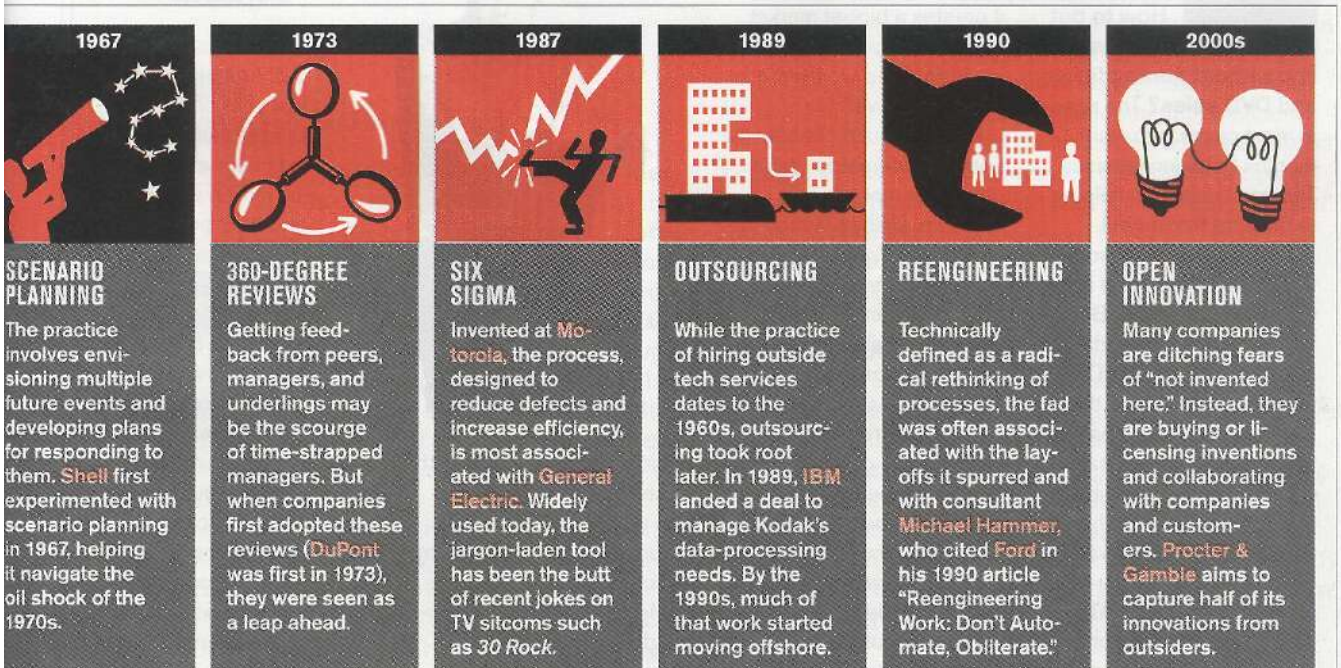
Business Exchange

Read, save, and add content on BW's new Web 2.0 topic network

What Matters Now

Management consulting firm McKinsey has launched an online site called "What Matters" that assembles essays from smart thinkers on topics ranging from innovation to globalization. Read why Google CEO Eric E. Schmidt thinks companies need to "collaborate or perish," what Stanford professor Jeffrey Pfeffer says will come "after the corporation," and why Craigslist founder Craig A. Newmark thinks we're headed for a "participatory technocracy."

To check out McKinsey's new site, go to **http://bx.businessweek.com/management-ideas/reference/**



The recession is prompting companies to reconsider how they work with outsiders, too. A critical new skill is learning to work with regulators and other public-sector executives whose role in business has vastly expanded. In the financial sector, that could mean interacting with government as owner. In other cases, it means looking for ways to tap the stimulus money now being doled out across the globe. Immelt, for one, has ramped up a companywide effort to track stimulus spending, monitor public-funded projects, and share expertise among GE business units.

SKIN IN THE GAME

Creative retailers, meanwhile, are getting more involved with struggling suppliers and customers. Some are exploring ways to help with financing where they can, while others are putting more emphasis on services as product sales drop off. Brian Dunn, who will take over as Best Buy's CEO this summer, says the consumer-electronics retailer is in "the early innings" of its expansion into technology services such as its Geek Squad tech support team. As customers spend less on new gadgets and want the ones they own to last longer, they're "really hungry not just for a transaction," Dunn says. "They're interested in who is going to help them get the benefit of what they're buying over the life of it."

In the past, solving customers' problems was often just talk. Now, it has become critical throughout a number of industries. Those who can't do it risk losing the business altogether; those who do may gain market share. India-based outsourcer HCL Technologies has been testing new ways to help customers trim costs, from deferring payments to helping them look for ways to cut overall IT spending. Naturally, the $5 billion-a-year company hopes happy customers will bring it more business. But the more immediate concern is that some clients may not survive if they don't find ways to take costs out of their bottom lines.

That's one reason CEO Vineet Nayar believes there's no choice but to put more of his own skin in the game. When a software client wanted to shelve a product it was developing, Nayar had HCL take over the project in exchange for a share of its future revenues. In another case, a media customer couldn't afford to install software that would save it money. So Nayar made the investment instead and plans to pay himself back out of the money his client will save. "I'm a big believer that buying will come back with a vengeance," he says." But it will come back only to people who have created trusted partnerships at the weakest point for their customers." IBW

-With *Peter Burrows in San Mateo, Calif.*

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