corporate gadflies who would vent their frustration at the annual meeting and be viewed as a sideshow. Now, even professional money managers — the polar opposite of the lone shareholder — are voicing their concerns, and with surprising results. Their interest and, perhaps more important, their votes, have led to radical changes at several large companies, including Disney and Ford Motors Company. Is there more work to be done? Absolutely. With more than 13,000 publicly traded companies out there, it's hard to snap your fingers and institute a "shareholders first" strategy overnight. But given the massive abuses that investors have experienced, even small changes are welcome. +

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Management

Joseph L. Bower and Clark G. Gilbert, editors, **From Resource Allocation to Strategy** (Oxford University Press, 2005)

Christopher D. McKenna, **The World's Newest Profession: Management Consulting in the Twentieth Century** (Cambridge University Press, 2006)

John Kay, **The Hare and the Tortoise: An Informal Guide to Business Strategy** (Erasmus Press, 2006)

Jeffrey Pfeffer and Robert I. Sutton, **Hard Facts, Dangerous Half-Truths, and Total Nonsense: Profiting from Evidence-Based Management** (Harvard Business School Press, 2006)

Kirk Snyder, **The G Quotient: Why Gay Executives Are Excelling as Leaders...and What Every Manager Needs to Know** (Jossey-Bass, 2006)

THE New Sobriety

by David K. Hurst

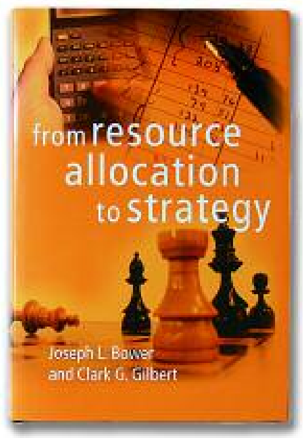
In a 1982 article in *Fortune* magazine, management writer Richard Pascale described "grand strategy" as a kind of "firewater" for corporate chieftains. Once-in-a-decade management fads like "reengineering" in the 1990s and "rank-and-yank" performance appraisal systems in the 2000s have encouraged binges among managers, often to be followed by monumental hangovers. There was little "firewater" in management books in 2006, but the selection here addresses more refined palates. There is an ongoing tension between the need for managers to take rapid, effective action and the unique complexities of every organization.

As evidenced by this year's crop of Best Books, management writers are beginning to ask the right questions about how hard, scientific evidence can inform management, and a theory of context is starting to take shape.

It will be a long wait for practitioners: The demand for rapid action often precludes the search for evidence. On too many occasions, however, managers act hastily and for all the wrong reasons, principally aggression and impatience, often induced by the consumption of firewater.

How Managers Make Strategy

The organizational context in which strategy is developed is at the core of *From Resource Allocation to Strategy*, edited by Joseph L. Bower, the Donald Kirk David Professor of Business Administration at Harvard Business School, and Clark G. Gilbert, faculty member of the entrepreneurial unit, also at Harvard. The book, which is oriented toward readers who enjoy conceptual frameworks, takes as its starting point Professor Bower's 35-year-old model of the resource allocation process. It looks at how managers actually develop organizational strategy rather than how they *ought* to develop it. This model was radical in its day; many of the leading strategic thinkers of the 1970s espoused a top-down process of formulation followed by implementation — structure followed strategy. Professor Bower's model turned that perspective inside out.



One early conclusion of his studies was that strategy is driven by three things: the way in which an organization allocates its resources, its structure, and the ways it measures and rewards its managers. Professor Bower saw the allocation of resources as an evolutionary process rather than as a one-time event. The book details the development of this perspective and, along the way, it incorporates the perspectives of academic luminaries such as Harvard Business School's Clayton Christensen, INSEAD's Yves Doz, and Stanford University's Robert Burgelman.

The value of this title is that it gathers together the theory and evidence for an unusually rich view of strategy making. In the original resource allocation process (RAP) model, three levels of managers were simultaneously involved in strategy making: those at the operating levels, who were exposed to the opportunities and anomalies that are the raw materials of strategy making; those at the top, who had formal responsibility for making strategic decisions (often based only on financial forecasts); and the middle managers, who acted as the firm's internal merchant bankers — go-betweens, who championed initiatives from those below by putting their own reputations on the line with those above. These levels remain in the revised RAP model, but the processes that operate up and down and across time have been greatly elaborated.

The book is divided into six parts: an introduction to RAP; examination of how "bottom-up" processes may fail; ideas for how bottom-up processes may be restored; discussion of the need for top-down intervention; outside commentaries on RAP; and a conclusion that contains a revised RAP model. The editors claim that understanding the RAP model is at the heart of understanding how strategy is made and how it can be made better. They make a compelling case that executives can shape the bottom-up processes whereby strategies are defined and selected by making changes to the structure of the organization. In addition, the situations that require classical, top-down strategic intervention — whenever the organization's inherently conservative resource allocation process becomes dysfunctional — are made clearer. It seems, for example, that "pruning" (selling or closing) existing operations is beyond the ability of insiders with vested interests and usually requires an outsider to intervene from the top of the organization. The overall picture that emerges of senior managers overseeing strategy and structure and intervening only if circumstances demand it is far more satisfactory than that of lone individuals "masterminding" strategy and single-handedly delivering results.

The work of Professors Bower and Gilbert has taken 35 years to mature and is only now achieving robustness. The editors' framework is solid and should endure. *From Resource Allocation to Strategy* is our choice for the best management book of 2006.

The Knowledge Brokers

The management professionals most responsible for the contemporary primacy of corporate strategy are the consultants. In *The World's Newest Profession: Management Consulting in the Twentieth Century,* Christopher D.

McKenna, an economic historian and university lecturer in strategy at the Said Business School at Oxford University, looks at the evolution of management consultancy from its origins in cost accounting in the 1920s through today. His focus is the environment in which management consultancy has achieved a dominant economic and cultural position in the U.S., rather than the management content that consultants have provided. As such, the book is a valuable companion to more content-oriented books about consultants, such as John Micklethwait and Adrian Wooldridge's *The Witch Doctors: Making Sense of the Management Gurus* (Times Books, 1996).

Professor McKenna identifies the roots of professional management consulting in the Glass-Steagall Banking Act of 1933, which separated commercial and investment banking, and the Securities Act of the same year, which effectively prohibited professional groups such as lawyers, engineers, and accountants from performing the due diligence required before corporate financial transactions. This gave an immense boost to fledgling consultants like George Armstrong, Edwin Booz (a founder of the firm that publishes *strategy+business*), and James McKinsey, who gradually worked their way up the organizational pyramid. The profession rose further in the U.S. after World War II with the federal government's creation of what Professor McKenna calls the "contractor state," the government's extended administrative capability with professional expertise supplied by external contractors. A powerful catalyst for this process was the 1947 Hoover Commission, which was charged with making the executive branch more efficient; the effect was to institutionalize the presence of consultants in the federal government. Regulation has continued to boost consulting; most recently, the Sarbanes-Oxley Act of 2002 prevented accounting firms from giving consulting advice to their clients and significantly increased the legal obligations of corporate directors, forcing them to turn to outside management consultants for advice.

Management consultants are often accused of repackaging old nostrums as "new" products, but in this sympathetic view the author sees them as preeminent knowledge brokers, fighting the continual commoditization of what they know. The abstractions of explicit knowledge are always changing as we find new ways to frame our experience; the tacit, ineffable experience that underpins it remains the same. This means the transfer of knowledge from one context to another will always be problematic. Thus one is left with the inescapable conclusion that, although practitioners of the world's newest profession, like those of the oldest, will always be busy, their true value to the community will continue to be questioned.

This more skeptical approach toward both management academics and consultants runs through *The Hare and the Tortoise: An Informal Guide to Business Strategy.* The book is a collection of columns from the *Financial Times* by economist, consultant, and former business school professor John Kay. He uses the title metaphor to tell the tale of a tortoise who, tired of being outrun by hares, hires consultants to help him become fast and agile. He is excited by their compelling presentations of jaguars chasing down hares and resolves to embark on a change program to become a jaguar himself. Fortunately he is dissuaded by a wise old owl who tells him to stick to environments where his existing skills fit. It is this fit between a firm's distinctive capabilities and the needs of a marketplace that is the essence of effective strategy. Professor Kay is critical of the approach of economists like Harvard Business School's Michael Porter to competitive strategy, arguing that this perspective throws no light on the central issue: why different firms facing the same environment perform so differently. The compressed format of a newspaper column and Professor Kay's lively metaphors make for easy reading. For those who do not have regular access to his writing, this book is a refreshing opportunity to catch up on an English perspective on European management.

There is little evidence to support the dangerous half-truth called the "war on talent."

Learning from Experience

Germany's Iron Chancellor, Otto von Bismarck (1815–1898), used to say that people who learned from their own mistakes were fools and that he preferred to learn from the mistakes of others. But there is little evidence that Bismarck followed his own advice. Although he was a keen student of history, he never developed a systematic approach to politics based on either his reading of the past or the practices of others. Rather, he was a supreme pragmatist and one of the earliest practitioners of what has become known as *realpolitik.*

He was probably well advised to remain pragmatic. For as intellectual historian Crane Brinton pointed out in his book *Ideas and Men: The Story of Western Thought* (Prentice-Hall, 1950), fields of study such as philosophy, religion, and politics generate "noncumulative" knowledge as opposed to the scientific domain, where knowledge is "cumulative" and progress is genuine. The real problem with arts or noncumulative fields of study is that, unlike the sciences, they never prune their trees of knowledge. They add but they do not subtract. Artifacts come in and out of fashion, but they never disappear completely and they can be revived at any time.

Management seems to fall into Dr. Brinton's noncumulative category. Students of the subject are presented with a dense jungle of often conflicting theories, principles, and practices, most of which are backed up by either folklore or anecdotal evidence rather than by scientific data. Different approaches appear, are adopted enthusiastically, and then disappear, only to be reincarnated later under new names.

Of course, the distinction between cumulative and noncumulative fields of knowledge is not a sharp one: It's a spectrum along which bodies of knowledge may move, propelled by variation, selection, and retention, and where more successful explanations and methods gradually replace less effective ones. The place and pace of management along this continuum is a matter of conjecture. It is probably positioned somewhere between law, which is almost entirely noncumulative, and medicine, which has become more cumulative. According to Jeffrey Pfeffer, professor of organizational behavior at Stanford University's Graduate School of Business, and Robert I. Sutton, professor of management science and engineering at Stanford, management should be closer to medicine. In their new book, *Hard Facts, Dangerous Half-Truths, and Total Nonsense: Profiting from Evidence-Based Management,* the professors declare, "If doctors practiced medicine the way many companies practice management, there would be far more sick and dead patients, and many more doctors would be in jail."

The authors organize their case for this claim into three parts, first making the argument for evidence-based management, then examining half a dozen "dangerous half-truths" before concluding with a section on how to profit from the use of evidence in management. They suggest that there are three primary reasons that managers so frequently choose the wrong approaches: casual benchmarking, which leads to adopting the most visible practices of apparently successful organizations without understanding the often unique circumstances that make them successful; repeating what worked in the past, once again without examining whether the context is the same as in the past; and following deeply held yet unexamined ideologies. The authors cite the furor over the role and efficacy of stock options as an example of how conviction rather than evidence can dominate the debate.

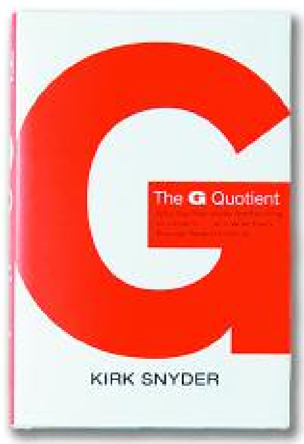
The dangerous "half-truths" examined are articles of faith held by many managers in North America:

1. Work is fundamentally different from life and should be.
2. The best organizations have the best people.
3. Financial incentives drive company performance.
4. Strategy is destiny.
5. Organizations must change or die.
6. Great leaders are in control of their companies.

Professors Pfeffer and Sutton weigh the evidence for and against each of these propositions. They conclude that, although there may be theoretical arguments to support these precepts, in practice their costs often outweigh their benefits. Thus half-truth number 2, which is often expressed as the "war for talent," assumes that individual ability is largely fixed, that people can be reliably sorted based on their abilities and competence, and that organizational performance is often the simple aggregate of individual performances. The authors can find little evidence to support these assumptions and argue that the contexts and systems within which people work consistently trump individual abilities. Similarly, in the case of number 3, although financial incentives can motivate behavior, supply information about the organization's values, and select for particular kinds of people, they can also encourage misbehavior, send mixed messages, and attract the wrong kind of talent.

Although the authors may have intended to show how the practice of evidence-based management is possible, by the end of the book the reader is more likely to suspect that the evidence for even the simplest of management propositions is equivocal and often outright contradictory, and that the best thing managers can do is fall back on their own beliefs and experiences. Without a theory of context to help them sort the evidence, the authors default to recommending a Socratic "attitude of wisdom," which "enables people to act on their present knowledge while doubting what they know." This attitude is obviously desirable but, because such wisdom can't be bought or taught, we end up going in a giant circle: One acquires good judgment through bad judgment, and it's bad judgment to practice casual benchmarking, repeat what worked in the past, and follow unexamined ideologies.

It is instructive to apply Professors Pfeffer and Sutton's lens to one evidence-based thesis that appeared in the past year: teacher and consultant Kirk Snyder's *The G Quotient: Why Gay Executives Are Excelling as Leaders…and What Every Manager Needs to Know.* His data suggests that gay executives who have publicly acknowledged their own sexual orientation create workplaces with significantly higher morale and greater employee commitment than firms run by their straight counterparts. He concludes that every manager needs to learn the importance of adaptability and creativity in the workforce, particularly with members of Generation Y, who are looking for meaningful work that will make a difference in the world.



The importance of this book — and the reason I've included it here — is that it examines a previously overlooked set of experiences that produces effective managers. Thus it throws new light on the managerial development process. We know, for example, that in England during the first Industrial Revolution, entrepreneurs were drawn in disproportionate numbers from small groups of religious nonconformists, like the Quakers. In the contemporary U.S., the Mormon community seems to play a similar role, and in other parts of the world one can point to highly entrepreneurial cultural groups like the overseas Chinese, the East African Indians, and Spain's Basques. For developing managers, we usually think of the great corporate academies like McKinsey and GE. The gay community seems to develop both entrepreneurs and managers. Mr. Snyder's focus is on the latter.

Mr. Snyder's evidence seems to show clear correlations between the gay experience and the development of what others have called emotional intelligence, and his arguments for a causal connection are persuasive. In addition, it seems that gay executives would come down decisively in support of Professors Pfeffer and Sutton's views on management's "dangerous half-truths." What remains unaddressed is whether these conclusions hold in all contexts (Mr. Snyder's thesis seems limited to the Anglophone world and perhaps even to particular kinds of business), how straight managers can teach themselves to develop emotional intelligence and change their organizations, and whether the costs of such changes are worth the benefits.

None of these lessons from experience would have changed the pragmatic approach of Bismarck, who, after all, was a master of the incremental process as he moved toward his goal of creating a strong, united Germany. In the early 1880s, he introduced Europe's first labor laws and a welfare system, not for any ideological reasons, but to forestall the rising power and appeal of the socialist movement. In 1890, he was dismissed by Emperor Wilhelm II, who exhibited much of the aggression and impatience characteristic of modern managers. The European geopolitical system, like all social constructions, had become unstable and it had to change, but it collapsed 24 years later with such violence and on such a large scale that it would take nearly 80 years to find a new, sustainable model. As philosopher George Santayana famously wrote in *The Life of Reason,* "Progress, far from consisting in change, depends on retentiveness. When change is absolute there remains no being to improve…and when experience is not retained…infancy is perpetual. Those who cannot remember the past are condemned to repeat it." He could have been writing about management. +

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