

HOW WILL YOU MEASURE YOUR LIFE? (2012, 221pp)
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A Summary

Prologue

Through the use of theories - management-oriented and otherwise - we will attempt to answer the following questions.

How can I be sure that

- * I will be happy and successful in my career
- * my relationships with my spouse, my children, and my extended family and close friends become an enduring source of happiness.
- * I live a life of integrity - and stay out of jail

Ch 1

I don't have an opinion, the theory has an opinion.

When people ask me something, I rarely answer directly. Instead, I run the question through a theory I my own mind, so I know what the theory says is the result of one course of action, compared to another. I will describe how the process in the model worked in another industry different from theirs. They will naturally be able to extrapolate to their industry and arrive at the correct answer by themselves, rather than if I had told them.

A good theory doesn't apply to one company and not the others. It is a general statement of what causes what and why. Good theory can help us categorise, explain and predict.

Predicting by collecting as much data as possible is like driving via rear-view mirror, because data is only available at the past. Many a times, we can't learn on the job. Theory can help us explain what will happen, even before you experience it.

A good theory is not built on merely correlation. It is built on some causal mechanism. It dispenses its advice in if-then statements.

A complex problem may need multiple theories to provide insight and solution.

When you use a theory to predict, also be clear what kind of assumptions were used by theory to predict. For example, the more southern the location, the higher the land prices in Mumbai. This rests on the assumption that people want to be closer to work, and most work is in South Mumbai. The key underlying assumption is that the work is only in South Mumbai. The moment this changes, the theory that southward the higher doesn't hold true.

Section 1

Finding happiness in your career

How do you put in place a strategy that will enable you to find the one job where you wake up every morning thinking how lucky you are to be doing what you are doing?

At a basic level a strategy is what you want to achieve and how you will get there. In the business world, for a company its strategy comprises its priorities, how it responds to opportunities and threats along the way, and how it allocates its precious resources. All these continuously combine, to create and evolve a strategy.

All of these factors - priorities, balancing plans with opportunities and allocating resources (time, talents and energies) in a way that is consistent with your intentions - combine to create your personal strategy as well. Strategy is a process - you are continuously updating it real-time to incorporate feedback and changes outside.

If you can understand and manage this strategy process, you will have the best shot at getting it right - of having a career that you will truly love.

Ch 2

What makes us tick?

When we find ourselves stuck in unhappy careers - or even unhappy lives - it is often the result of a fundamental misunderstanding of what really motivates us.

Hygiene factors - money, status, job security, work conditions, supervisory

policies etc - at their best will led to the absence of dis-satisfaction. They will not lead you to love your job, but will lead to you not hating it. It will not lead to job satisfaction, but to a lack of job dis-satisfaction!

So what will make you truly, deeply satisfied with your job? These are what Frederick Herzberg, the person behind the 2-factor or Motivation Theory calls Motivators or Motivation factors such as challenging work, recognition, responsibility, personal growth etc which gives you the feeling that you are doing something meaningful. These are intrinsic factors, as opposed to hygiene factors.

We often chose our careers basis hygiene factors such as money, as the primary criteria. This may be motivated by short-term inancial factors such as need to pay off loans etc but in the long run leads to dis-satisfaction, unhappiness with their jobs as they are not doing what they are truly passionate about or do find meaning in their jobs.

If you get motivators at work, you are going to love your job, even if you are not making piles of money. In order to really find happiness, you need to continue looking for opportunities that you believe are meaningful, in which you will be able to learn new things, to succeed, and to be given more and more responsibility to shoulder. People who truly love what they do and think their work is meaningful throw their best into what they do and usually become very good at what they do. This in turn often results in them getting paid very well for their work as typically careers that are filled with motivators are also filled with financial rewards.

We must always remember that beyond a certain point hygiene factors such as money and prestige are much more a by-product of being happy with a job than the cause of it. Realising this helps us to focus on the things that truly matter.

Ch 3

The Balance of Calculation and Serendipity

Balancing the pursuit of goals and aspirations with taking advantage of unanticipated opportunities is a critical part of the strategy process.

Options for one's strategy spring from 2 sources

1. Anticipated opportunities - the opportunities that you can see and chose to pursue. When you put in place a plan focussed on these anticipated

opportunities it is called Deliberate Strategy

2. Unanticipated opportunities (or problems) that emerge as you pursue your deliberate strategy targeting the anticipated opportunities.

The unanticipated problems / opportunities then fight the deliberate strategy for the attention, capital and hearts of the employees and management. The company has to decide whether to stick with the original plan / strategy or replace it with a modified strategy (sometimes explicitly articulated and laid out) that coalesces from the myriad day to day decisions to pursue unanticipated opportunities and to solve unanticipated problems. Such a modified strategy that arises from the many day to day decisions is called an Emergent Strategy. Eventually the emergent strategy becomes the deliberate strategy, and the cycle continues.

Strategy is not a discrete, analytical event. Rather it is a continuous, diverse and unruly process. Managing it is very hard - the deliberate strategy and the new emerging opportunities fight for resources. On the other hand if you have a strategy that is truly working, you need to deliberately focus to keep everyone working in the same direction. But be careful, if you have your blinkers on while focussing, you may miss out on what could actually be the next big thing.

In our lives and in our careers, we are constantly navigating a path by deciding between our deliberate strategies and unanticipated alternatives that emerge. Neither is inherently better or worse. Rather what you choose depends on where you are on your journey. Understanding this - that strategy is made up of these two disparate elements - deliberate and unanticipated, and that your circumstances dictate which approach is best - will better enable you to sort through the choices that your career will constantly present.

If you have found an outlet in your career that provides both the requisite hygiene factors and motivators, then a deliberate approach makes sense. Your aspirations should be clear, and you know from your present experience that they are worth striving for. Rather than worrying about adjusting to unexpected opportunities, your frame of mind should be focussed on how best to achieve the goals you have deliberately set.

However if you haven't found a career that does this for you, then you need to be emergent and keep experimenting until you find a career with the requisite hygiene and motivating factors.

How do you indeed decide if the emergent strategy is the best path for you? What if you need to invest substantial monies just to find out if it is indeed the right path? What if there are more than one emergent strategies? How do you decide?

There is a tool that can help you test whether your deliberate strategy or a new emergent one will be a fruitful approach. It is called Discovery-driven Planning, and essentially says "What has to prove true for this to work?". It forces you to articulate what assumptions need to be proved true in order for the strategy to succeed. The same approach can be used to test business opportunities, launches etc as well.

When a promising new idea emerges, financial projections should be made. But instead of pretending that these are accurate, acknowledge that they are rough, and ask the project team to compile a list of all the assumptions that have been made in those initial projections. Then ask them "which of these assumptions need to prove true in order for us to realistically expect that these numbers will materialize"? The assumptions should be rank-ordered by importance and uncertainty. At the top of the list should be the assumptions that are most important and least certain, while the bottom of the list should be those that are least important and most certain.

Only after you understand the relative importance of all the underlying assumptions, should you green-light the project. But not in the way that most companies tend to do. Instead find ways to quickly, and with as little expense as possible, test the validity of the most important assumptions. The logic of taking this approach is compelling - instead of going through the pretense of asking managers to work on the excel file till the numbers look good, the approach of asking "what assumptions must prove true?" offers a simpler way to keep strategy from going far off-course. It causes teams to focus on what truly matters to get the numbers to materialize. If we ask the right questions, the answers generally are easy to get.

This type of planning can help you consider job opportunities too. Before you take a job, carefully list what things others are going to need to do or to deliver in order for you to successfully achieve what you hope to achieve. Ask yourself "what are the assumptions that have to hold for me to be able to succeed in this assignment?". List them. Which are in your control? Which look likely?

Equally important, ask yourself what assumptions have to hold for your to be *happy* in the choice you are contemplating. Are you basing your position on

extrinsic or intrinsic motivators? Why do you think this is going to be something you enjoy doing? Every time you consider a career move, consider the most important assumptions that have to prove true, and how you can swiftly and inexpensively test if they are valid (talking to others, look at interviews or actions by CXOs etc).

Ch 4

Your Strategy Is Not What You Say It Is

You can talk all you want about having a strategy for your life, understanding motivation, and balancing aspirations with unanticipated opportunities. But ultimately this means nothing if you do not align those with where you actually expend your time, energy and money. Real strategy - in companies and our lives - is created through hundreds of everyday decisions about where we spend our resources. If your resource allocation is not supporting the strategy you have decided upon, then you are not implementing that strategy at all.

In the strategy process, resource allocation is where the rubber meets the road. The resource allocation process determines which deliberate and emergent initiatives get funded and implemented, and which ones are denied resources. Everything related to strategy inside a company is only intent until it gets to the resource allocation stage. A company's vision, plans and opportunities - and all of its threats and problems - all want priority, vying against one another to become the actual strategy the company implements.

If you study the root cause of business disasters, over and over we find a predisposition towards endeavours that offer immediate gratification vs those that lead to long-term success. Many companies' decision-making systems are designed to steer investments to initiatives that offer the most tangible and immediate returns, so companies often favour these and shortchange investments in initiatives that are crucial to their long-term strategies.

In the words of Andy Grove "to understand a company's strategy, look at what they actually do, rather than what they say they will do". Resource allocation works similarly in our careers as well. Our resources - time, talents, energies and money - have to be allocated amongst the various businesses, be it our careers, our family, our hobbies, our communities etc, not on the basis of immediate returns (activities that yield most immediate, tangible accomplishments) for that will mean an overwhelming allocation to careers,

as typically this is where you will get immediate feedback. Family is an area where you will not see any immediate feedback - it may take 20 years to see results! A poor allocation to family will not see immediate returns, but in the long run will wreck your marriage and may even undo your career gains!

Investing time and money in your family and kids doesn't offer the immediate returns that investing in your career does. You won't see any short-term deteriorations if you neglect your kids for a few months, but keep this going and you will see problems with your relationships in the medium to long term. If your family matters most to you, when you think about all the choices you've made with your time in a week, does your family seem to come out on top?

Section 2

Finding Happiness In Your Relationships

Recapping Ch1 - 4 : how do we use the strategy process to find fulfillment in one's career. First, we need to identify motivators (priorities) that will help us experience happiness in what we do at work. Next, balance a deliberate plan for finding a career that delivers you those motivations, along the unexpected opportunities that will always arise along the way. And finally, allocate your personal resources (time, money, commitment) in a manner that is consistent with your priorities. Get these three parts of the strategy process right, and you will be on track to a career that you truly love.

In our own internal allocation process, we are always tempted to allocate every extra hour or ounce of energy in whatever activity yields the clearest and most immediate evidence that we have achieved something. And typically this tends to be on the work front, where results are visible more quickly. But keep in mind that the person you are at work, and the amount of time you spend there will impact the person you are outside of work with your family and friends. High-achievers typically focus a great deal on the kind of person they want to be at work, and very little on the kind of person they want to be at home. This leads to over-investment in careers and under-investment in our families, starving one of the most important parts of our life of the resources it needs to flourish.

It is hard to compartmentalize different parts of your life. Your career priorities - the motivators that truly make you happy at work - are simply one part of a broader set of priorities in your life; priorities that include your family, friends, your faith, health and so on. Similarly the way you balance

your plans with unanticipated opportunities, and the way you allocate your resources does not stop the moment you walk out of your office. You are making decisions about these every moment of your life at work and at home, and you will be constantly pressured at home and at work, to give people and projects your attention.

You have to make sure that you allocate your resources in a way that is most consistent with your priorities rather than react to whoever makes the most noise. You have to make sure that your measures of success are aligned with your most important concern. And finally you have to make sure that you are not prioritizing the short term at the expense of the long term.

Tip : use hard stops, barriers, boundaries such as leave office before 7pm to read to children / tuck them into bed, or no phone calls at home to make sure you can allocate resources appropriately. It is easy to lose yourself in the day to day challenges of the workplace and get short-term highs from solving problems, while missing out on time with family where the payoffs are long-term though far more profound. Work can bring you a sense of fulfillment - but it pales in comparison to the enduring happiness that results from the intimate relationships that you cultivate with your family and friends.

Tip : with children, you will try many things that don't work. When this happens, it can be very easy to view it as a failure. It is not. When you keep in mind the concept of finding a balance between plans and unanticipated opportunities, you know that getting something wrong doesn't mean you have failed. Instead you have just learned what doesn't work. All that can be said is that you won't get it right if you don't commit to more trying.

Ch 5

The Ticking Clock

When things at home are going smoothly, you can be lulled into thinking that you can put your investments in these relationships on a back burner. Beware. By the time serious problems arise in family relationships, it is too late to repair them. This means, paradoxically, that the time when it is most important to invest in building strong families and close friendships is when it appears, at the surface, as if it is not necessary.

The Theory of Good and Bad Capital : Prof Amar Bhide's research states 93% of companies that became successful had to abandon their original strategy, as their original plan became unviable. Thus the companies which were

successful didn't succeed because they had the right strategy from the beginning, but because they had money left over after the original strategy failed, so that they could pivot and try other approaches. Most of those that fail, in contrast, spend all their money on their original strategy, which is usually wrong.

Thus, the Theory of Good and Bad Money (or Capital) states that when the winning strategy is not yet clear in the initial stages of a new business, good money from investors needs to be patient for growth, but impatient for profitability. It demands that a new company figure out a viable strategy as fast as and with little investment as possible, so that the entrepreneurs don't spend a lot of money in pursuit of the wrong strategy. Given that 93% of companies that ended up being successful had to change their initial strategy, any capital that demands the company become very big, very fast will almost always drive the business off a cliff instead. That is why capital that seeks growth before profits is bad capital. This is why Iridium failed.

But once a profitable and viable way forward has been discovered, investors need to become impatient for growth. Success now depends on scaling the model.

Some of the most frequent offenders in failing to abide by this theory are big investors and successful businesses looking to invest in new growth businesses. The way in which this happens is through a simple 3-step process (Mathew Olson and Derek van Bever in Stall Points).

The 1st step is that because the probability is so high that the initial plan is not viable, the investor needs to invest in the next wave of growth even when the original business is strong and growing, in order to give the new initiative the time to figure out a viable strategy. Despite this, typically the owner of capital postpones the investment because the core business is strong, growing and has huge capital and time demands.

In the next step, tomorrow arrives. The original core business has become mature and stops growing. The owner of capital finds that he should have invested several years earlier in the next growth business, so that when the core business stalled, the next engine of growth and profit could have taken over. But now this new growth engine is just not there.

In the 3rd step, the owner of capital demands that any business that he invests in must become very big very fast. To move the needle, you have to pour in large amounts of capital and thus the stakes and pressure become

enormous. But all that this abundant capital does is to fuel the wrong strategy (remember 93%) aggressively. Instead if you had been patiently investing in the smaller businesses, adapting your deliberate plan to new opportunities and making sure of the profitability, then at this stage you could have gone for aggressive scale (be hungry for growth!).

The above (step 3) explains why Honda motorcycles succeeded in the US while Iridium failed. Honda was forced to be patient for growth and impatient for profits as it was financially constrained, whereas Iridium was generously funded and aggressively pursued a strategy that was built on unrealistic assumptions (people will carry a 1kg phone, step out of their houses to call etc).

Steps 1 - 3 illustrate how there will come a day of reckoning, a day when the companies' main business stumbles or stops growing, and new sources of revenue are needed and quickly at that. If a co has ignored investing in new businesses until it needs those new sources of revenue and profits, it is too late. It is like planting saplings when you decide you need more shade. It is not possible for those trees to grow large to provide shade, overnight!

What is the relevance of the Good and Bad Money principle in our lives? The theory of Good Money, Bad Money explains that the clock of building a fulfilling relationship is ticking from the start. We neglect investing in the family when we are building our careers, not deliberately but through a slow process of ignoring calls, cutting down on dinners, time spent etc to create alienation amongst our friends and families, especially children. And once this happens, we can't turn the clock back. People in the later years of their life often lament that they didn't keep in better touch with friends and relatives who once mattered profoundly to them. The consequence of this happening can be enormous.

As a counter example, there is the case of George Bailey in "It is a Wonderful Life", where by the end of the film, he is poor but his life is rich in friendships, which was possible only because he has continually invested in those relationships with friends and family earlier in his life.

Investments in life cannot be sequenced. You can't say I will invest in my career till I am 40 and then worry about investing in my family. By then you would probably have had a divorce and be alienated from your child.

Clayton Christensen cites the importance of 'language dancing' - talking to infants in an adult, sophisticated language as if the child could be part of a

chatty, grown-up conversation - which boosts the cognitive development of the child. Such a tiny investment has the potential for such enormous returns. Yet many parents think they can start focusing on their child's academic development when they hit school. But by then, they have missed out on a huge opportunity to give their child a leg up. This is just one of the ways in which investments in relationships with friends and family need to be made long, long before you see any sign that they are paying off.

Ch 6

What Job Did You Hire That Milkshake For?

Companies focus too much on what they want to sell to customers, rather than what the customers need (customers don't want a two-inch drill, they want a two-inch hole!). That is why products fail. Similarly we go into our relationships thinking about what we want rather than what is important to the other person. Changing your perspective to the other side or in business, developing a deep understanding of what problems customers are trying to solve, is de rigeur to personal and professional success.

Example of Ikea : Unlike other stores which are structured or organized around a product category, such as office / beds or a customer segment, Ikea is structured around a job that customers periodically need to get done - furnish house overnight and at a low cost. Ikea's entire store design - the supervised play area, the restaurant, the out of way location which ensures that it can build a bigger store to keep all products, is integrated with its overall strategy of ensuring that the customer can walk in with an empty house, and walk out having got all that is needed to furnish.

Ikea is a great example of a company that is structured around the 'jobs to be done' theory. The insight behind this is that what causes us to buy a product or service is that we actually hire products to do jobs for us. Subway is another example : we hire subway to provide us a relatively inexpensive healthy, fast and quick meal.

When a company understand the jobs that arise in people's lives, and then develops products and the accompanying experiences required in purchasing and using the product to do the job perfectly, it causes customers to instinctively pull the products into their lives when the need arises, and develop an intense loyalty to it.

Every successful product or service, either explicitly or implicitly, was

structured around a job to be done. Addressing a job is the causal mechanism behind a purchase. If some one develops a product that is interesting, but which doesn't intuitively map in customer's minds on a job that they are trying to do, the product will struggle to succeed, unless the product is adapted and repositioned on an important job.

It is not necessary that the customer will continue to use you for the job permanently. Metro, the free sheet no longer serves the purpose it did - time pass on a subway ride - because now you have Angry Birds!

You can also position the product on a different job, competing against a product that is doing an inferior job there. (example of V-8 juices which were repositioned as vegetable replacements instead of competition to Gatorade).

Also, it is important to improve the product on the dimension relevant to the job that the customer is trying to do, rather than add features which are irrelevant to why he is hiring the product for the job.

What jobs arise in the lives of students that schools might be hired to solve? To be successful and to have friends, every day. Schools compete with gangs for this job. Hence schools have to design their curriculum such that they feel success every day.

In marriages, the jobs that your spouse is trying to do are often very different from the jobs that you think she should want to do. We can do all kinds of things for our spouse, but if we are not focussed on the jobs that she most needs doing, we will reap frustration and confusion in our search for happiness in that relationship.

The path to happiness in a relationship is not just about finding someone who you think is going to make you happy. Rather, the reverse is equally true : the path to happiness is also about finding someone whose happiness is worth devoting yourself to. Can I easily and happily do the job she has hired me for?

Thinking about your relationship from the perspective of the job to be done is the best way to understand what is important to the people who mean the most to you. Asking yourself "what job does my spouse most need me to do?" gives you the ability to think about it in the right unit of analysis. But you have to go beyond understand that job. You have to do that job. You have to sacrifice and commit, and be willing to suppress your desires and freedoms. And in sacrificing so much for something worthwhile like your kids or family, you deeply strengthen your commitment to it.

Ch 7

Sailing Your Kids on Theseus's Ship

The Dangers of Outsourcing : the Dell - Asus story. The need to improve RONA (Return on Net Assets), typically through reducing the denominator (hiving off assets and outsourcing) rather than improving the numerator (selling more products) led Dell to outsource more and more of the PC manufacturing process to Dell, until in the end, it had outsourced the entire PC manufacture and design to Asus. Soon, Asus announced its entry into the branded PC segment, competing with Dell. In the process, Dell lost control over the design process, which hurt it when the market moved towards laptops where design played a key role, and Apple won marketshare.

So, when should a company outsource, and when shouldn't it? After all, Apple too outsources its entire manufacturing process. Why is Apple's outsourcing strategy correct, and Dell's strategy wrong?

The answer lies in understanding the concept of capabilities. You need to understand what capabilities are, which of them will be critical in the future, and hence which to keep in house and which matter less.

The factors that determine what a company can and can't do - its capabilities - fall into one of three buckets : resources, processes and priorities. A company's capabilities are dynamic and are built over time. No company starts out with its capabilities fully developed.

The most tangible of the three is resources - either people or things (brands, product design, cash, relationships with suppliers, machines etc). They are visible, measurable (mostly) and can be increased or decreased tangibly. Most people might think that resources are what makes a business successful.

But resources are only one of three critical factors driving a business. Organizations create value as employees transform resources into products and services of greater worth. The ways in which employees interact, coordinate, communicate, and make decisions are known as processes. These enable the resources to solve more and more complicated problems.

Processes include the ways products are developed and made, the methods by which market research, budgeting, employee development, compensation, resource allocation etc are accomplished. Unlike resources, which are often

easily seen and measured, processes can't be seen on a balance sheet.

If a company has strong processes in place, then managers have flexibility about which employees they put on assignments, because the process will work regardless of who performs it.

The third and most important capability is the organization's priorities. This set of factors defines how a company makes its decisions. Managers at every level take prioritization decisions - what they will focus on today, and what they will put at the bottom of their list. CXOs can't be there to watch over every decision as the company gets bigger.

Hence, the larger and more complex a company becomes, the more important it is for senior managers to ensure employees make, by themselves, prioritization decisions that are consistent with the strategic direction and business model of the company. It means senior executives need to spend a lot of time articulating clear, consistent priorities that are broadly understood through the organization.

Over time, a company's priorities should be in sync with how the company makes money, because employees must prioritize those things that support the company's strategy, if the company is to survive. Otherwise the decisions they make will be in conflict with the foundation of the business.

The theory of capabilities gives companies the framework to determine when outsourcing makes sense, and when it does not. There are two important considerations - firstly, take a *dynamic* view of your supplier's capabilities. Focus closely on what they are striving to be able to do in the future. Secondly, figure out what capabilities you will need to succeed in the future. These must stay in-house. Understanding the power and importance of capabilities can make the difference between a good CEO and a mediocre one.

The Resources, Processes and Priorities model of capabilities can help us gauge what our children will need to be able to do, given the types of challenges and problems that we know they will confront in their future. Take the example of a child developing an iPad app.

Resources - computer, knowledge of programming etc

Processes - the way in which he pulls these resources to create something novel, something he hasn't been explicitly taught to do, but learns as he goes along

Priorities - desire to spend his precious free time programming instead of playing, the problem he cares about enough to create the app to solve, fact

that the cares that his friends and students will be impressed etc.

Resources are *what* he uses to do it, Processes are *how* he does it, and lastly Priorities are *why* he does it.

Today parents are flooding their kids with resources - knowledge, skills and experiences - but the nature of these activities, in which the kids are not truly engaged, and don't challenge them to do hard things, denies our children the opportunity to develop the processes they'll need to succeed in the future.

What are the processes that children are missing out on, or need to hone up on? These are team work, entrepreneurship / resourcefulness / inventiveness, persistence / discipline / tenacity, the value of preparation and planning etc.

When we so heavily focus on providing our children with resources, we need to ask ourselves a new set of questions. Has my child developed the skill to develop better skills, knowledge to develop deeper knowledge, experience to learn from his experience? These are the critical differences between resources and processes in our children's minds and hearts, which have arisen from the systematic outsourcing of work (cleaning, repairs, building, kitchen gardens, making your own clothes and food etc) in today's homes to professionals.

Kids are denied valuable learning opportunities like the above / summer jobs / solving complicated problems on their own etc which help them reach adulthood having acquired self-confidence and self-esteem, in the sense that they can confront a problem and solve it on their own. Self-esteem doesn't come from abundant resources such as attending lots of ballet, speech, soccer classes where they are often not engaged and are there just for the ride. Rather it comes from acquiring a key process - achieving something important when it is hard to do.

By outsourcing these key learning opportunities to outside professionals (versus learning by doing in house) parents are making the same mistake Dell did - by outsourcing heavily, Dell didn't see that it was focussing so heavily on resources and reducing its crucial processes, and thereby undermining its future competitiveness.

Tip : Children will learn when they are ready to learn, not when we are ready to teach them. When they have their learning moments, it is important that 1) we be around, and 2) our actions reflect the priorities and values we want

them to imbibe. Why is this important? Because you want your children to gain their priorities and values from yourself, not other people. If you are not with them as they encounter challenges in their lives, you are missing important opportunities to shape their priorities and their lives.

Ch 8

The Schools of Experience

USC Prof Morgan McCall's book *High Flyers* offers a theory that could help people make better decisions about whom to hire in the future, and gives a clue as to why so many managers make hiring mistakes.

McCall's theory states that successful managers are not born with the right skills. Instead they hone them along the way, by having experiences that taught them how to deal with setbacks, or extreme stress in high-stakes situations. In terms of the language of capabilities from the earlier chapter, we need to look for candidates with process capabilities. Such capabilities are acquired by *taking the right courses in the School of Experience*, so to say, challenging assignments that help the candidate acquire key processes that can help him perform in a new and challenging scenario.

Thus people who fail at their jobs do so not because they are inherently incapable of succeeding, but because their experiences have not prepared them for the challenges of that job - in other words they haven't taken the right courses.

Q - Does that mean we should never hire or promote an inexperienced manager who has not already learned to do what needs to be done in this assignment? Well, it depends. In a start-up co where there are no processes in place to get things done, then everything must be done by individual people - resources. In such a case, it is better to bring in someone who has the right experience for the job, someone tried and tested. However, in established companies where much of the guidance to employees is provided by processes, and is less dependent hence on managers with detailed, hands-on experience, then it makes sense to hire or promote someone who needs to learn from experience.

So how do we make sure our kids take take the right courses from the school of experience. Well, for one, let them fail. Everyone knows how to celebrate success, but you should also celebrate failure if it is a result of a child striving for an out-of-reach goal. This can be difficult, because so much of society's

culture is focussed on trying to build self-esteem in children by never letting them lose a game, or giving them accolades simply for trying their best, and constantly receiving feedback from teachers or coaches that never requires them to think whether they can do better.

And secondly, don't intervene continually by helping them on projects, assignments etc. Let them do it on their own, even if it means a poor job. The resultant failure will provide important lessons.

The challenges that your kids face serve an important purpose : they will help them hone and develop the capabilities necessary to succeed throughout their lives. Coping with a difficult teacher, failing at a sport, navigating the popularity hierarchy at school etc all become important courses in the school of experience. While focussing on the key resume-builders of good grades, success at a sport etc., do not neglect the courses that your children need to equip them for the future. Once you have figured out, work backward: find the right experiences to help them build the skills they will need to succeed. It is one of the greatest gifts you can give them.

Ch 9

The Invisible Hand Inside Your Family

One of the most powerful tools we have to close the gap between the family we want and the family we get is culture. We need to understand how it works and be prepared to put in the hard yards to influence how it is shaped.

How do we make sure that when our kids are faced with a tough decision, they will take the right one? How do we know they will not cheat on a test or drunk drive or date rape etc? How do we make sure that doesnt happen. Well, something fundamental has to happen years before the moment arises when our children are faced with that difficult choice. Their priorities need to be set correctly so that they will know how to evaluate their options and make a good choice. The best tool that we have to help our children do this is through the culture we build in our families.

Enterprises and families are similiar in this respect. Business leaders too want to ensure that midlevel managers and employees through the line will make the right choices every day without requiring constant supervision. Culture is the only way to make sure this happened.

Culture : it is common to describe culture as the visible elements of a working

environment, such as casual Fridays, free lunches etc. However those are really the artifacts of culture. An office that allows T-shirts and shorts could also be a very hierarchical place. So would that still be a casual culture?

MIT's Edgar Schein defined culture, and how it is formed as follows : Culture is a way of working together toward common goals that have been followed so frequently and so successfully that people don't even think about trying to do things another way. If a culture has formed, people will autonomously do what they need to do to be successful.

Those instincts haven't been formed overnight. They are the result of years of shared learning arising from outcomes (favourable or otherwise) of the decisions taken. Everytime they tackle a problem, employees aren't just solving a problem itself. In solving it, they are learning what matters. As long as the way they have chosen keeps working to solve the problem - it doesn't have to be perfect, but working well enough, the culture will coalesce and become an internal set of guidelines and rules that employees in the company will draw upon in making the choices ahead of them.

In the language of capabilities, they are creating an understanding of the priorities in the business, and how to execute them - the processes. A culture is the unique combination of processes and priorities within the organization. The advantage of a strong culture - shared understanding of priorities and what processes to undertake to achieve them - is that it effectively causes an organization to become self-managing.

An example of a co with strong culture is Pixar. Its priority - making high-quality, original films. Unvarnished feedback (one of the processes) is valuable, even if it leads to missed deadlines because it is more important to produce a great movie.

As long as the company's competitive and technological environments remain as they are today, the strength of its culture is a blessing. If the environment changes substantially, then the strength of the culture will make it hard to change things too.

Culture is formed through repetition - solving problems repeatedly and successfully until it becomes instinctive to do it in the way they designed it.

As in companies, so in families. Just like a manager who wants to count on employees using the right priorities to solve problems, parents want to set priorities too, so that family members will solve problems and confront

dilemmas instinctively. Kids will not have to stop and think about what dad and mom want them to do - they will go about it, because their family culture has dictated "This is the way our family behaves".

In a family, culture can be built consciously or can evolve inadvertently. If you want your family to have a culture with a clear set of priorities for everyone to follow, then those priorities need to be proactively designed into the culture. If you want your family to have a culture of kindness, then the first time one of your kids approaches a problem where kindness is an option, help her choose it, and then help her succeed through kindness. Or if she doesn't choose it, call her on it and explain why she should have chosen differently.

Every family should pick the culture that is right for them. It can be a challenge to agree on a culture (both spouses will likely have different perspectives etc). What is important is to actively choose what matters to you, and then engineer the culture to reinforce those elements. It entails choosing what activities we pursue, and what outcomes we need to achieve, so that as a family, when we have to perform those activities again, we all think "This is how we do it."

Make no mistake : a culture happens, whether you want it or not. The only question is how hard you are going to try to influence it. Forming a culture is not an instant loop; it is not something that you can decide on, communicate, and then expect it to suddenly work on its own. You need to be sure that when you ask your children to do something, or tell your spouse you are going to do something, you hold to that and follow through. It is important to be consistent or you send wrong signals. A culture of laziness, inconsistency or downright defiance may creep into the company.

You have to consciously work throughout the years your children are young to help them see success in the things you want to be part of your culture. Praise him when he takes up the priorities that you have defined as right, and gently remind or upbraid him to get on the right track.

What is important to understand is how it is built, so that you have a chance to create the culture you want. Creating a uniform culture will demand constant vigilance about what is right and what is wrong. It is not just about controlling bad behaviour. What do the kids have to do that will get their parents to say, "Well done".

Although it is difficult for a parent to always be consistent and remember to give your children positive feedback when they do something right, it is in

those everyday interactions that culture is being set. And once that happens, it is almost impossible to change.

Section 3

Staying Out of Jail

In this final section of the book, I only want to use one theory to talk about living a life of integrity. What I offer here is a theory called "full vs marginal thinking" that will help you answer our final question : how can I be sure I live a life of integrity?

Ch 10

Just This Once...

The important ethical decisions in our lives seldom come with advance warning signs. Instead, most of us will face a series of small, everyday decisions that rarely seem like they have high stakes attached. But over time, they can play out far more dramatically. Similarly, no company deliberately sets out to let itself be overtaken by its competitors. Rather, they are seemingly innocuous decisions that were made years before that led them down that path. This chapter explains how that process happens so that you can avoid falling into the most beguiling trap of all.

Marginal Thinking is a principle that is taught in every fundamental economics course: that in evaluating alternative investments, we should ignore sunk and fixed costs, and instead base decisions on the marginal costs and marginal revenues that each alternative entails.

But it is a dangerous way of thinking. Almost always, such analysis shows that the marginal costs are lower, and marginal profits are higher, than the full cost. This doctrine biases companies to leverage what they have put in place to succeed in the past, instead of guiding them to create the capabilities they'll need in the future. If the future was exactly the same as the past, then the marginal thinking approach would have been fine. But the future is different and hence it is the wrong thing to do.

Example of Blockbuster vs Netflix : Blockbuster ignored Netflix's potential and the online rental opportunity because, it could only see it from the vantage point of its own existing business. When viewed like this, the market

that Netflix was after did not look attractive. If Blockbuster was to go after Netflix successfully, this new business was likely to kill Blockbuster's existing business. No CEO would have wanted to tell his board that he wants to create a new less profitable business that is going to be responsible for killing the existing high profit business.

Netflix on the other hand did not have to see it from a marginal lens. It assessed the opportunity using a clean sheet of paper. It didn't have to worry about maintaining existing stores or propping up existing margins. All Netflix saw was a huge opportunity. It was marginal thinking that made Blockbuster believe that the alternative to not pursuing the postal / online DVD market was to continue doing what it was doing before, at 66% margin and billions of dollars in revenue. The right way to look at this new market was not to think "How can we protect our existing business?". Instead Blockbuster, should have been thinking: "If we didn't have an existing business, how could we best build a new one? What would be the best way to serve our customers?" Blockbuster couldn't bring itself to do so, and so Netflix did. And when Blockbuster declared bankruptcy in 2010, the existing business that it had been so eager to preserve by using a marginal strategy was lost anyway.

This is almost how it always plays out. Because failure is so often at the end of a path of marginal thinking, we end up paying for the full cost of our decisions, not the marginal costs, whether we like it or not.

Similarly US Steel vs Nucor. Whenever established companies are confronted by disruptive entrants, there is reluctance to invest in a new sales force, or a new brand, or a new production unit. Why is it that the big established companies that have so much capital find these initiatives to be so costly? And why do the small entrants with much less capital find them to be straightforward?

The answer lies in the theory of marginal vs full costs. Every time an executive in an established company needs to make an investment decision, there are two alternatives on the menu. The first is the full cost of making something completely new. The second is to leverage what already exists, so that you only need to incur the marginal cost and revenue. Almost always the marginal cost argument overwhelms the full-cost one, and the executive decides not to invest. And that is the trap of marginal thinking. You can see the immediate costs of investing, but it is really hard to accurately see the costs of not investing.

For the entrant, in contrast, there is no marginal cost item on the menu. If it

makes sense, then the new entrant does the full-cost; because they are new to the scene, the full cost for them is the marginal cost.

When there is competition, and this theory causes established companies to continue to use what they already have in place, they pay far more than the full cost - because the company loses its competitiveness. As Henry Ford said, "If you need a machine and don't buy it, then you will ultimately find that you have paid for it and don't have it."

To come at it slightly differently, when you decide that the upside of investing in the new product isn't substantial enough while you still have a perfectly acceptable existing product, you aren't taking into account a future in which somebody else brings the new product to market. You are assuming everything else - specifically, the money you make on the old product - will continue forever exactly as it has up until now.

The marginal-cost argument applies the same way to personal life too. The marginal cost of doing something "just this once" will always seem to be negligible, but the full cost will typically be much higher. The price of doing something wrong "just this once" appears alluringly low. It suckers you in, and you don't see where that path is ultimately headed or the full cost that the choice entails (Rajat Gupta, Eliot Spitzer, Lance Armstrong etc).

Many of us have convinced ourselves that we are able to break our rules "just this once". None of these things when they happen, feels like a life-changing decision. The marginal costs are almost always low. But each of those decisions can roll up into a much bigger picture, turning you into the kind of person you never wanted to be. You don't realize the road you are on until you look up and see you've arrived at a destination you would have considered unthinkable.

If you give in to "just this once". based on a marginal-cost analysis, you will regret where you end up. That is the lesson I learned - it is easier to hold to your principles 100% of the time than it is to hold to them 98% of the time. The boundary - your moral line - is powerful, because you don't cross it. If you have justified doing it once, there is nothing to stop you doing it again.

Decide what you stand for. And stand for it all the time.

Epilogue

Whether they want one or not, every company has a purpose. It rests in the

priorities of the company, and effectively shapes the rules and guidelines by which managers and employees decide what is important in each business situation.

If an organization has a clear and compelling purpose, its impact and legacy can be extraordinary. The purpose of the company will serve as a beacon, focusing employee's attention on what really matters. And that purpose will allow the company to outlive any one manager or employee. Examples of companies with such compelling purpose are Apple, Disney, KIPP, Aravind Eye Hospital etc.

Without a purpose, the value of any business theory to executives is limited. Even though theory can predict possible outcomes of a decision, on what basis would the executives be deciding among them to determine which is the best outcome? Purpose is the critical ingredient that guides the application of that theory.

In a similar way, in order to maximize the value of the advice in this book, you must have a purpose in your life. Hence, I want to describe to you the best process to develop a purpose.

The Three Parts of Purpose : A useful statement of purpose for a company needs three parts

1) Likeness : a likeness of a company is what the key leaders and employees want the enterprise to have become at the end of the path they are on. It is not something they hope to discover; rather it is something that the managers and employees hope they will have actually built when they reach each critical milestone in their journey.

2) Commitment : employees and managers need to have a deep and abiding commitment to the likeness that they are trying to create. Purpose can't begin and end on paper. Because issues demanding answers about priorities will repeatedly emerge in unpredictable ways, employees without this deep commitment will find that the world will compromise the likeness by wave after wave of extenuating circumstances

3) Metrics : this enables the managers and employees to measure their progress. These metrics - one or a few - enable everyone associated with the enterprise to calibrate their work, keeping them moving together in a coherent way.

These three parts - likeness, commitment and metrics - comprise a company's purpose. Companies that aspire to positive impact must never leave their purpose to chance. Worthy purposes rarely emerge inadvertently; Purpose

must be *deliberately* conceived and chosen, and then pursued. When that is in place, then how the company gets there is typically emergent - as opportunities and challenges emerge and are pursued. The greatest corporate leaders are conscious of the power of purpose in helping their companies make their mark on the world. This is true for leaders outside the business sphere too. The greatest leaders - Gandhi, Martin Luther King, Nelson Mandela etc - also had an extraordinarily clear sense of purpose.

The type of person that you want to become - the purpose of your life - is too important to leave to chance. It needs to be deliberately conceived, chosen and managed. The opportunities and challenges in your life that allows you to become that person will, by their very nature, be emergent. It is through this emergent process - just as strategy through coalesces similarly - that purpose too evolves. Keep in mind that purpose is a process - it can take years to fully understand your own purpose.

When arriving at your personal purpose : likeness is actually the simplest of the three. It is a form of setting goals for yourself - the most important ones you will ever set. But it will have value only if you create it for yourself, reflecting your individual circumstances and dreams.

Commitment is the hardest part. If it is clear that this is the person you want to become, then you must devote your life to becoming that person. Each of us may have a different process for committing to our likeness. But what is universal is that your intent must be to answer the question : What do I truly want to become?

Why is commitment important? Because you apply your knowledge of the purpose of your life everyday unlike many of the tools of your trade which are used infrequently. In the long run, thus clarity of purpose trumps knowledge of theories and concepts. Without a clear sense of purpose, you become a rudderless ship buffeted by the rough seas of life.

If you take the time to figure out your purpose in life, I promise that you will look back upon it as the most important thing you will have ever learned.