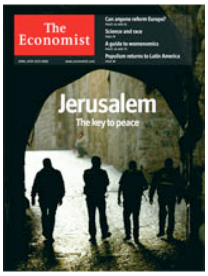

Management Reading

What's in the Journals, April 2006

Apr 10th 2006
From Economist.com

A look at noteworthy articles from business journals

Insight on outsourcing
"Offshoring: The Next Industrial Revolution?"
Foreign Affairs, March/April 2006
By Alan S. Blinder

Outsourcing and offshoring are hot political potatoes in rich countries. However the phenomenon is largely misunderstood—as is the way to react to it—according to Alan Blinder, a professor of economics at Princeton University and a former vice-chairman of the Board of America's Federal Reserve. The effect of outsourcing will be good for the global economy overall. But the dislocation to the labour markets of rich countries, notably America, will be worse than many suspect. More jobs are vulnerable to outsourcing than is anticipated, says Mr Blinder, and the remedy of yesteryear of "more education" may not help.

This essay makes three important contributions to the debate: what lies behind the trend; how to think about it; and what to do about it. First, it points out the shortcomings of current economics in helping us to understand what is happening. The classic dichotomy of "tradable" and "non-tradable" services is meaningless when things are not boxed but shipped over telecoms networks.

As a result, a better way of thinking about trade is in terms of "personally delivered services" and "impersonal ones". A janitor can't be in China if the factory is in Colorado—so "personal" services will still exist, of course. But a radiologist can be in India even if the patient is in Indiana.

Mr Blinder then offers advice as to what western governments can do about offshoring. First, their excellence in services gives them a strong incentive to lead by "specialising more in the delivery of services [with] personal presence." Second, rich nations should transform their educational systems to train workers for personal services, emphasising creativity, not just higher degrees. Finally, there should be more government "adjustment assistance", such as unemployment insurance and re-training. "None of this is to suggest that there will be massive unemployment," says Mr Blinder. "Rather, there will be a massive transition."

The few true multinationals
"The Myth of the Global Company"
World Business, April 2006
By Gordon Redding

The first issue of the promising new business magazine sponsored by INSEAD contains a leading article by Gordon Redding in which the director of the business school's Euro-Asia Centre casts doubt on the idea that globalisation necessarily involves dull uniformity and the disappearance of local brands and flavour. "The laws of economics," he says, "are heavily conditioned by culture" and historical evolution.

Mr Redding identifies six very different business systems that, he says, currently dominate the world's economy:

1. The large multi-divisional, multinational firm found in Britain and the United States;

2. The continental European large-scale business, such as Volkswagen and Nestlé;

3. The European industrial "cluster", such as the textile firms of Emilia Romagna;

4. The Japanese keiretsu, the networks of interlinked firms still predominant in the world's second-largest economy;

5. The Korean chaebol, unique combinations of government and family firms, such as Samsung and LG;

6. The Chinese private company—what Mr Redding describes as the "clans" of vertically integrated small firms that work so well in what is now "the workshop of the world".

After decades of globalisation, Mr Redding's colleagues at INSEAD have identified only nine companies that are truly global—in the sense that less than 50% of their business is in their home territory and more than 20% is in each of the other two out of the three major regions: America, Asia and Europe. (Give yourself a prize if you can guess which ones they are without looking! The names are below.)

IBM; Sony; Philips Electronics; Nokia; Intel; Canon; Coca-Cola; Flextronics and LVMH, the French luxury-goods business.

Don't exaggerate
"Distortions and deceptions in strategic decisions"
McKinsey Quarterly, Spring 2006
By Dan P. Lovallo and Olivier Sibony

McKinsey has taken a lead in applying the findings of behavioural economics to business. In the latest edition of the firm's *Quarterly*, Dan Lovallo, an Australian academic, and Olivier Sibony, a consultant in the firm's Paris office, acknowledge "the many contributions of Daniel Kahneman and Bent Flyvbjerg to the underlying ideas in this article." Mr Kahneman is a central figure in behavioural economics, a Princeton psychologist who won the Nobel prize for economics.

The authors of the article warn of the dangers of our natural over-optimism. "Almost all of us," they write, "believe ourselves to be in the top 20% of the population when it comes to driving, pleasing a partner, or managing a business." This applies to managers making strategic decisions, including decisions whether to acquire or merge with other companies. Over-optimism, for example, leads to the underestimation of the technical challenges involved in large infrastructure projects, or the time needed to complete them – hence the extraordinary frequency with which such projects over-run their budgets and their deadlines.

The article also warns of the risks of "sunflower management", the tendency of all heads to turn in the same direction as that of the boss. The authors say that managers should become more aware of how biases can affect their decisions, and then take measures to counter them. But don't almost all of us think we are doing that exceptionally well already?

Live excitement
"Indeterminacy and Live Television"
Journal of Consumer Research (forthcoming)
By Joachim Vosgerau, Klaus Wertenbroch and Ziv Carmon

Inspired by an MBA class that revolted when their final exam was scheduled at the same time as a World Cup match, the authors—Mr Vosgerau from Carnegie Mellon, Messrs Wertenbroch and Carmon from INSEAD—conducted a series of experiments to help explain why people prefer to watch certain television shows live. They found that the "indeterminacy" of the outcome of certain types of programme, such as sports events, raises the viewer's excitement in a way that a taped broadcast (even one where the viewer does not know the outcome) does not. The MBA students were not even satisfied by a set-up which replayed the match immediately after their exam had finished. (The match had ended at the same time as their exam and the students were prevented from hearing the result or any of the details before they viewed it.)

The participants did not draw such a clear distinction between watching scripted shows "live" or taped. This could have interesting implications for television advertisers, trying to figure out which viewers are watching shows live and which are recording them for another time. It could also have implications for business schools and other educational establishments scheduling their exams around the time of the World Cup finals to be held in Germany this summer.

The busy Ram Charan
"Home Depot's Blueprint for Culture Change"
Harvard Business Review, April 2006
By Ram Charan

"Sharpening Your Business Acumen"
strategy+business (enews)
By Ram Charan

Ram Charan is a busy man. The independent consultant and author of many books and articles is responsible for the cover story of the latest issue of the *Harvard Business Review*, a hagiographic account of Bob Nardelli's efforts to turn round the culture of the entrepreneurial retailer (founded as recently as 1978) from that of a tight-knit family firm to that of a big business – a process in which Mr Charan himself participated. Mr Nardelli is one of the two men who didn't get to be boss of General Electric when Jack Welch stood down. (The other, James McNerney, is now running Boeing after a stop-over at 3M on the way.)

The process of change at Home Depot has not been easy, and the article makes little mention of the internal friction it has caused. For example, it makes no mention of a current court case in which a former Home Depot employee is claiming that he was fired after objecting to the new way the firm collects money from its suppliers to cover the cost of damaged and defective merchandise. The employee, Michael Davis, filed a motion with the US Department of Labour compelling Mr Nardelli to make himself available for questioning, an action that by mid-February he had not yet undertaken.

Mr Charan's second current article appears in the online edition of Booz Allen Hamilton's publication, *strategy+business*. In it the consultant offers a six-step guide to help executives "anticipate external influences in the marketplace" and adapt accordingly in order to find "unique moneymaking opportunities". Since Mr Charan seems to have found a few himself, it might be worth listening to his advice.

The McKinsey awards
"Regional Strategies for Global Leadership"
Harvard Business Review, December 2005
By Pankaj Ghemawat

"Fixing Health Care from the Inside, Today"
Harvard Business Review, September 2005
By Steven J. Spear

The McKinsey awards for the best articles published in the *Harvard Business Review* in 2005 have been awarded to the two authors above. Pankaj Ghemawat, who won the first prize, is yet another of a generation of Indian academics making their mark in the world of management studies. By coincidence he is also a former McKinsey employee, having worked in the firm's London office in the early 1980s. He is currently a professor of business administration at the Harvard Business School.

Steven Spear, who works for the Institute for Healthcare Improvement in Cambridge, home of the Harvard Business School, is an acknowledged expert in the Toyota Production System, the Japanese carmaker's widely admired lean-manufacturing technique. In the (second) prize-winning article for the year he argues that the health-care industry could save "thousands of lives and billions of dollars" if it would follow a few of the factory-floor techniques developed by the Japanese manufacturer.

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