

**Know How by Ram Charan**  
(Crown, ISBN 0-307-23769-9, \$27.50)

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Know-How

The Substance of Successful Leaders

Know-how is what separates leaders who perform—who deliver results—from those who don't. It is the hallmark of people who know what they are doing, those who build long-term intrinsic value and hit short-term targets.

What gets in the way of finding people who can perform is the appearance of leadership. All too often I see people being chosen for leadership jobs on the basis of superficial personal traits and characteristics, such as:

- The seduction of raw intelligence: “He’s extremely bright, incisive, and very analytical. I just feel in my gut he can do the job.”
- A commanding presence and great communication skills: “That presentation was awesome. How she ever boiled down all that data onto the PowerPoints is beyond me. She certainly had the committee in the palm of her hand. Mark my words, she’s going to the top.”
- The power of a bold vision: “What a picture he painted of where we are going, moving forward.”
- The notion of a born leader: “The people in the unit love her. Such a morale builder and motivator!”

Certainly intelligence, self-confidence, presence, the ability to communicate, and having a vision are important. But being highly intelligent doesn't mean that a person has the knack for making good business judgments. How many times have you seen people confidently making decisions that turn out to be disastrous? How often have you heard a vision that turned out to be nothing more than rhetoric and hot air?

Personal attributes are just one small slice of the leadership pie, and their value is greatly diminished without know-how, the eight interrelated skills that bring leadership into the realm of profit and loss.

We need leaders who know what they are doing. Change is always with us, but its current magnitude, speed, and depth is unlike what most readers of this book have experienced in their lifetime. A Google can come from nowhere and grow into a multibillion-dollar business in a few short years, becoming one of the world's most highly valued companies. There are not only huge opportunities but also great pitfalls that can swallow up whole companies and industries. Think for a moment about the challenges Google has presented to companies in the advertising, broadcasting, and publishing industries, to name just a few.

World-class competitors can now emerge from anywhere—witness the wave of emerging-nation players that have clear advantages in their industries—thanks to mobility of talent, capital, and knowledge.

You will be constantly tested for your know-how and lead your business in the right direction. Will you be able to do the right things, make the right decisions, deliver results, and leave your business and the people in it better off than they were before?

- Can you position your business by finding the central idea that meets customer demands and makes money? And, as will increasingly be required, can you appropriately reposition it?

- Are you able to pinpoint external change by detecting patterns ahead of others and put your business on the offensive?

- Do you know how to lead the social system of your business by getting the right people together with the right behaviors to make better, faster decisions and achieve business results?

- Can you judge people by finding their best talents based on facts and observations and matching them with a job?

- Are you molding a team by getting highly competent leaders to submerge their egos and coordinate seamlessly?

- Do you know how to develop goals by balancing what the business can become with what it can realistically achieve, not merely looking in the rear-view mirror and making incremental adjustments to what's been done before?

- Can you set laser-sharp priorities by defining the specific tasks that align resources, actions, and energy to accomplish the goals?

- Can you deal with forces beyond the market by creatively and positively responding to societal pressures you don't control but that significantly impact your business?

Command of these know-hows enables you to diagnose any situation and take appropriate action, lifting you out of your comfort zone of expertise by developing skills that prepare you to do what the situation requires, not just what you've traditionally been good at.

The know-hows do not, however, stand alone. There are a million things that can block human beings from making sound judgments and taking effective action. That's where personal traits, psychology, and emotions enter the leadership picture. But instead of trying to define and adopt the ideal set of personal traits, it's more useful to focus on a simple question: How does your personal psychology and cognitive ability affect the way you cultivate and use the know-hows? For example, the know-how of detecting the patterns of external change might be affected by your ability to connect the dots and whether at heart you are an optimist or pessimist.

Know-How is about what you must both do and be to lead your business in what is shaping up to be the most challenging business environment in decades. It plants business leadership squarely on a foundation of profit and loss, capital utilization, resource allocation, productivity, and customer satisfaction while never losing sight of the fact that leaders are human beings.

Let me illustrate the difference between having know-how—the real content of leadership—or not, using two situations I personally observed.

I've disguised the executives and the companies, but they are true stories that I witnessed. The stories center on two CEOs, Nick and Bill. Nick had all the traits commonly associated with leadership in abundance. He had an incredibly facile mind and high energy. He was highly articulate and decisive, and had the charm to make you feel like you're the only one in the room. He was a financial wizard and an inspirational leader. Bill had many of those traits too, but he also had the know-how to go with them. Their stories are very different.

Nick

The board of the company Nick joined was worried. The company had for many decades been number one in its industry in America, but ten years previously it had been eclipsed by a competitor that had grown by leaps and bounds and had displaced it as the industry leader by a wide margin. The company had been losing market share to its growing rival for two main reasons. One was customer dissatisfaction and defection. The second was operational problems resulting in higher costs and negative cash flow. The two previous CEOs had failed miserably. Now the board was trying again. The best headhunter in the business was on the case, armed with a meticulously prepared list of the criteria a candidate would have to meet. This time the board was determined to get it right.

When Nick interviewed for the job, the board's search committee recognized him as the company's savior. He was extremely quick on his feet and accomplished, and had a commanding presence and was a great communicator. He had progressed swiftly through the ranks in his previous job, yet was humble and sincere. He had risen through finance and willingly admitted, when a board member asked, that it would be a stretch to learn operations and logistics, both of which were crucial to the business, and he promised to surround himself with top talent in those areas.

At age forty-four, Nick was energetic and fit. He also radiated an emotional maturity beyond his years. He was seen as a visionary, someone with the passion to revive the glory days of the company. He exuded confidence and was young enough to see the mission through to its conclusion. All the meticulous reference checking confirmed that his apparent strengths were real.

Wall Street was thrilled when the board announced Nick's appointment. The business press rushed to do glowing profiles. Employees emerged with new energy after every rousing

speech Nick made. What a relief; here, at last, was the CEO who would restore the company's former luster.

True to his personality, Nick took hold of the company quickly and made some bold moves. He told the board, then publicly announced, that he intended to gain market share head-on from the company's biggest competitor. Within a few weeks he replaced the homegrown president with the head of one of this competitor's divisions, a reputed expert in operations and logistics. And he brought his longtime information technology consultant aboard to head the IT department and make radical changes to fix IT, an area in which the company's chief competitor excelled by a wide margin.

It was exciting at first, but it wasn't long before the accolades stopped. Nick's former IT consultant, now his vice president of IT, had built her career giving companies advice about what they needed to do. She had never actually done it. She had no skills in motivating a group of very bright and independent technology experts and the IT overhaul soon lagged badly behind schedule. She had to return to Nick several times over the course of a year to ask for increases in the IT budget.

Meanwhile, the new president had been building a personal fiefdom, hiring many of his former colleagues from the competitor. Together they set out on an ambitious effort to win discounts from suppliers by buying in large lots. The idea was to get prices down to win back market share. Of course, the big competitor quickly countered the new strategy by discounting prices in select merchandise at locations strategic to Nick's. The price discounts hurt the competitor's profits a bit, but the competitor was so large that its targeted price cuts did not have a significant impact on its bottom line. It wasn't long before Nick noticed that merchandise was beginning to pile up in the retail outlets. Over time some of those products became outdated and had to be marked down drastically, far below what it had cost the company to purchase them. Worse, the large purchases and inventory buildup sapped much-needed cash.

The company's chief financial officer became increasingly concerned about the company's cash position. He warned Nick several times that the president's unchecked buying sprees were endangering the company's survival. Cash was dwindling at an alarming rate and unless that trend were reversed—and soon—the company would be in default of its loan covenants. As the CFO's warnings became increasingly shrill, Nick became increasingly irritated and finally told the CFO that he wasn't supporting the company's goals and would have to leave.

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