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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.”

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- *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

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advantages in their industries—thanks to mobility of talent, capital, and knowledge.

You will be constantly tested for your know-how to 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 match 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?

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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 do your personal psychology and cognitive abilities 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 substance 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 in-

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spirational 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 he 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

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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

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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.

It's obvious, of course, where this is going. One day a key board member received a telephone call from the chairman of the company's lead bank. It was over. The banks would formally announce the next day that the company was in violation of its debt covenants. The board ordered Nick to fire the president and, after weeks of negotiations with its lenders, the company filed for bankruptcy protection. Nick was soon replaced, and the company continues to struggle today.

Once again, the board had botched it. They had been beguiled by *form* and didn't search for *substance*. The directors had focused too much on the candidate's personal traits, his intellectual prowess and emotional intelligence, his ability to inspire and motivate, and the health of his ego. They had neglected to probe deeply into Nick's skills in repositioning a company, his ability to judge people and to build an effective

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team of senior executives. All were in short supply and seriously compromised Nick's judgment and ability to get the job done.

Was Nick's abject failure his own fault? Not really. After all, he hadn't deceived anyone. In fact, he had demonstrated precisely the qualities that people admired and respected, fulfilling in every measure the criteria the board had given the headhunter.

I've seen this mistake repeated over and over again at several levels of organizations, from the choice of a Fortune 100 CEO to business unit managers, country managers of multinational companies, and high-level functional leaders, such as R&D and sales. Aspiring business leaders don't set out to do a lousy job, but it happens. Young people learn quickly what they have to do to be recognized: impress others with their intelligence, fast thinking, and commanding presence. Over time, they polish all the outward appearances of leadership and their superiors buy it lock, stock, and barrel. It seems incredible, but when it comes to business leadership, we don't consider the most important pieces of it: Does this person have the know-hows to succeed? Is he or she capable of developing them and driven to continue to hone them? The seeds of personality traits might be born, but know-hows are learned, developed through practice, and honed through experience. Leaders who are disciplined, determined, consistent, and persistent in developing these know-hows tend to be successful on a sustained basis. In that sense, leaders are made.

BILL

When the board of another company went outside to name Bill to the CEO's post, earnings had been flat for two years and investors were getting out of the stock. The board had reviewed many candidates. Bill, at age forty-five, was the

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youngest. But he also had the most diverse experience. He had repositioned three different businesses—in Switzerland, Mexico and the United States—in three different industries. What he lacked was experience in this company's basic technology.

As Bill studied how to reposition the company, he discovered that one of the company's three divisions produced a third of the revenues, but very little profit. More to the point, that division wasn't closely related to the company's core business. Bill assessed the various opportunities for making money in different market segments, then ditched the low-margin third of the business, focused resources on the remaining market segments, and started a new division with a new cutting-edge product. That was the easy part.

More important, however, Bill surveyed the changing environment for the industry. The bulk of the company's revenues came from just ten customers with operations around the globe. His company's technology originated in Germany and the products were manufactured mostly in the United States. But Bill saw that the center of decision making among his customers was moving toward Japan and Taiwan. Should he reposition the company to put the bulk of R&D and production in Asia? Who would run such operations? What about the language and cultural barriers? At best, such a fundamental change would be difficult. As Bill pondered what to do, he focused on the increasingly rapid evolution of products in the industry. Design times were getting shorter and shorter. Prices were being cut sooner and sooner. His designers and engineers in Europe and the United States were smart and efficient, but were paid several times more than designers and engineers in Taiwan. If he was going to be able to cut the price of new products in half just eighteen months after they were introduced, he had to get his costs down. That capped it. The company's center of gravity for decision making would move to Taiwan.

Bill's decisions fundamentally reshaped the entire company, and they were risky. Once in place, however, the wisdom of the

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moves was clear. The company could compete more aggressively in the chosen segments, be world competitive in cost and cost structure, give customers better value, and increase market share and earnings. Bill's confidence in his decisions wasn't just bravado; it was rooted in his know-how of positioning the business to make money. Bill's personality was a huge asset in the decision-making process. He is a good listener, willing to probe deeply, confident that if he asks the right questions he will come to the right answers.

Bill also had the know-how of judging people. The company already was multicultural, with operations in Germany and the United States and sales forces in Taiwan and Japan, when Bill joined. He had never met his team of direct reports before joining the company and had to decide who among them would be able to make the leap to Asia, who would be able to cut cycle times and reduce production costs.

Once he had chosen the people to make the changes, Bill had to ensure that they worked in close synchronization as a team despite multiple languages, cultures, disciplines, distance, and different time zones. To do that he set up a process of repetitive, simultaneous, and intensive communications through weekly international conference call joint problem-solving sessions, as well as getting together on a monthly basis. The process brought all of the relevant people together to talk about the latest issues at hand that required coordination and trade-offs, the actions to be taken and by whom, and the follow-through.

Behind it all, though, was Bill's know-how of seeing the changes in the external environment that would require his company to slash its development cycle times and be able to make money even when steadily cutting the price of new products in half over a period of just eighteen months. With his eyes firmly on those goals, he was able to carry out an effective repositioning of the company that quickly resulted in rapidly rising revenues and profits, and a stock price that

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climbed even during the difficult days in 2001 and 2002 when the entire industry was in a slump.

The difference between Nick and Bill boils down to one simple thing: Bill knew what he was doing, and Nick really didn't. In today's environment of lightning fast change and transparency, leaders who lack substance get discovered sooner, but the damage they do in the meantime can be greater. Missing an opportunity or failing to move on a threat can destroy a company, as can mistakes in judging people or organizational capabilities or even in setting goals.

Successful leaders learn, practice, hone, and refine the know-hows until they become natural. Mastery comes with lots of rounds of practice. Just as a superbly fit human being who hasn't practiced won't be as good at a sport as someone who practices diligently, leaders who do not practice these know-hows will be less effective than those who do. Business know-hows aren't taught in schools, and cultivating them isn't easy. But over time, with lots of development, the know-hows become automatic, instinctive, and superb, and judgment improves. You become a master in exercising them at the right time and in the right combination as each new situation presents itself, the way Michael Jordan knew how to position himself on the basketball court or Tiger Woods knows how to adjust his golf swing to accommodate the terrain. While it is unrealistic to expect every leader to become superb in every know-how, you need a basic understanding of each in order to know where your strengths and weaknesses lie and what kind of expertise you may need to support you.

LINKING KNOW-HOWS WITH THE WHOLE PERSON

There has long been a debate about whether the personal traits commonly associated with leadership are inherent or learned. That debate is beside the point. By the time you're age

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twenty-five or so and entering the workforce, your essential personality traits, psychological constructs, and patterns of thinking are pretty much set, regardless of whether or not you were born with them. But those things get you only so far. You can succeed or fail even if those things seem to match the profile of a leader. From that point on, your ability to succeed on a sustained basis depends on cultivating and practicing the requisite know-hows, while at the same time refining the personal traits you have. Know-hows reinforce personal traits, and personal traits reinforce know-hows. For instance, successfully detecting external change and repositioning a business will boost your confidence and perhaps make you more decisive next time. With greater confidence, you might become more open to contradictory views and thereby expand your cognitive bandwidth. A wider bandwidth will help you detect external trends. That's why it's so important to practice the know-hows through a series of deliberate, appropriately challenging job assignments, combined with self-reflection on your personal traits. That's how leaders are made.

Let me begin to show you how with the story of Liz, now a senior executive at a Fortune 500 firm. She had at an early point in her career been responsible for a P&L product line, reporting directly to the CEO of a small company. Early on she had impressed her boss with her numerical, diagnostic, and analytical skills. But Liz had gaps in her ability to position the business and find patterns in the external environment because she lacked the same passion to go out into the marketplace and meet with customers. After her boss pushed her to go on some sales calls, Liz was able to recognize what had been holding her back: a vague but very real fear that customers would react negatively to her youth and relative inexperience or ask questions she couldn't answer.

Liz was highly ambitious, indeed often in overdrive, but in her drive to achieve, she often made snap judgments of

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people. If one of her direct reports didn't deliver, she was ready to fire the person. Her behavior created an atmosphere of fear that clogged the flow of information, especially of bad news. Her boss, again acting as her mentor, showed her how to channel her drive to get to the root cause of the problem by asking probing questions. What were the factors underlying the poor performance? Was the person really at fault or had there been a shift in the marketplace? Perhaps the person in question was in the wrong job and his talents would be better used elsewhere in the business.

As her career progressed, she was given assignments that required her to do some repositioning, and as she wrestled with the challenge, her thinking broadened. She was able to see the total business picture of the product line and she became better at seeing patterns in the external environment. With each success, her self-confidence grew.

After a number of other challenging jobs in another, larger company over a ten-year period, Liz is now leading six different units at the Fortune 500 firm. Her early experiences not only improved the know-hows but also made her aware of the personal traits that were getting in her way, while she honed some traits that would work to her advantage.

Liz now has no fear about how people will react when she asks incisive questions of her business unit managers, who develop through her ability to probe. Her ability and willingness to drill to the specifics gives her more insight into the business and improves goal setting and repositioning. She is able to see and evaluate people's personal traits, for example, their appetite for risk taking to take advantage of new opportunities for growth. She tests their cognitive bandwidth—how well they are connecting the dots to detect breaks in the external landscape, what's their nose for repositioning the business, are they on the offensive or taking a defensive position.

Like all successful leaders, she is a continuous learner,

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self-aware and able to reflect on her experiences and observations, thereby distilling what she has learned and converting ideas into action. With responsibility for six businesses, she has a huge number of opportunities for diverse observations through her continuous interaction with the teams of her six different businesses. Her judgment regarding people, positioning, and selection of goals has continually improved in perceptible ways and has set the foundation for becoming a successful CEO.

There are dozens of personal traits that can affect leadership and some, namely integrity and character, that are absolute. But in my years of experience I have observed that the ways leaders develop and deploy the eight know-hows are especially influenced by a handful of them: ambition, drive and tenacity, self-confidence, psychological openness, realism, and an insatiable appetite for learning.

These personal traits come out in many different ways. Do you stew over a decision alone or bring in trusted advisers for candid discussions? Do you allow yourself to be influenced by other people, changing your position in light of better analysis by a subordinate? Are you a procrastinator who wants more and more data—more certainty—before making a decision? Or are you impulsive, making a snap decision based on your gut instincts? Do you like to be liked? Your personality and psychology play an important role in how you interact with your business, whether you impose your will on the organization or seek a productive consensus that aligns the entire business with your goals.

Ambition—A desire to achieve something visible and noteworthy propels individual leaders and their companies to strive to reach their potential. Leaders need a healthy dose of it to push themselves and others. But ambition can be blind.

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That's when you see leaders making flashy acquisitions that are financially unsound or setting attention-getting goals or taking on more priorities than the organization can handle out of a desire to do everything. Overambitiousness, combined with a lack of integrity, can lead to undesirable behavior and even corruption.

Drive and tenacity—Some leaders have an *inner motor* that pushes them to get to the heart of an issue and find solutions. They drill for specific answers and don't give up until they get them. Their *high energy* is infectious. They consistently drive their priorities through the organization. They search tenaciously for information they're missing and keep tweaking their mental models until they arrive at a positioning that works. But drive and tenacity can cause a leader to stick to a plan that isn't working or to outdated assumptions or an investment that is no longer promising.

Self-confidence—You have to be able to listen to your own inner voice and endure the lonely moments when an important decision falls on your shoulders. You have to be able to speak your mind and act decisively, knowing that you can withstand the consequences. It's not a matter of acting tough. It's having a tough inner core, or what some refer to as emotional fortitude. Underlying fears and insecurities can be just as detrimental to your know-hows as can excessive self-confidence in the form of narcissism or arrogance.

Some leaders have a *need to be liked*. They therefore tend to go easy on people. They have an especially hard time dismissing people who have been loyal to them. Such leaders often find their own progress slowed because they promote people for the wrong reasons, tolerate nonperformers, and allow the social system to corrode.

A *fear of response* is also common. Such leaders tend to avoid conflicts and find it hard to challenge people on their performance or point of view. They back off when they

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should be giving brutally honest feedback, and sometimes have a third party do that work for them.

Leaders with a *fear of failure* are often indecisive, defensive, and less likely to spot opportunities because they're risk averse. They find it hard to select goals for fear of choosing the wrong ones and wait too long to connect the dots in the external environment or to reposition the business.

Self-confidence also affects your *use or abuse of power*. Every leader has to use power from time to time in assigning tasks, allocating resources, selecting or promoting people, giving differentiated rewards, or redirecting dialogue. An excessive fear of failure or fear of response can make a leader uncomfortable using power, and not using power appropriately actually erodes it. Failure to deal with a recalcitrant direct report, for instance, diminishes the leader's power. On the other hand, narcissistic leaders tend to abuse power, using it irrationally or against the interests of the organization.

Psychological openness—the willingness to allow yourself to be influenced by other people and to share your ideas openly enhances the know-hows, while being psychologically closed can cause problems. Leaders who are psychologically open seek diverse opinions, so they see and hear more and factor a wider range of information into their decisions. Their openness permeates the social system, enhancing candor and communication. Those who are psychologically closed are secretive and afraid to test their ideas, often cloaking that fear under the guise of confidentiality. They're distant from their direct reports and have no one outside to bounce ideas off or to provide information that counters their own beliefs. In the new environment of complexity, being psychologically closed makes it particularly difficult to reposition the business because the leader lacks perspectives from diverse disciplines, functions, and cultures.

Realism—Realism is the mid-point between optimism and

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pessimism, and the degree to which you tend toward one or the other has a particularly powerful effect on your use of the know-hows. Optimism can lead, for example, to ambitious goals that outstrip the company's ability to accomplish them, or can compromise your judgments of people: "I know his ego has no bounds, but I can coach him to become a team player." But pessimists don't want to hear ambitious plans or bold initiatives and can find all the flaws and risks in pursuing them when they do. They're likely to miss opportunities. A realist is open to whatever hand reality deals him. Only the realist wants to get unfiltered information that can be weighed, measured, evaluated, and tested to determine what step to take next. He spends time interacting with customers, employees, and suppliers, getting information and a "feel" from those constituencies about their thinking.

Appetite for learning—Know-hows improve with exposure to diverse situations with increasing levels of complexity, so an eagerness for new challenges is essential. Leaders who seek out new experiences and learn from them will build their know-hows faster than those who don't.

It is important to understand that these personal traits interact with one another and with the know-hows, for better or worse, and that in excess, they have a dark side. Overconfidence combined with excessive drive, for instance, can lead to narcissistic behavior, overcompetitiveness, and distrust of others. Combine those traits with being psychologically closed and overoptimistic and you are sure to shut down anyone hinting at bad news or suggesting that there are practical limitations to your plans.

It goes without saying that developing the know-hows requires innate intelligence. But the best leaders have distinct cognitive abilities that go beyond simply being bright. Their

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thinking encompasses a **wide range of altitudes** from the conceptual to the specific, they have a **broad cognitive bandwidth**, meaning they see things through a wide lens, and they are good at **reframing** issues and problems, looking at them from various points of view.

It's essential to be able to navigate a full range of altitudes, from the 50,000-foot level of conceptual thinking to the worm's eye view, probing the messy details of a situation. Early in your career you have to concentrate on the details of your job. As you rise you become more concerned with the big picture and high concepts. But your use of the know-hows is better when you're able to do both: think in terms of concepts but also drill to the specifics. You see this ability in leaders who ask *probing questions* that hit on exactly the right points or unearth the critical but unspoken assumptions, and in those who can *cut through complexity*. Many leaders love the world of big ideas but can't link them to the specifics of how they will be achieved or how they will make money. Their questions are broad and general rather than incisive. On the other hand, some leaders are so focused on the details that they miss the forest for the trees. Either extreme can be damaging.

A broad cognitive bandwidth allows you to take in a wide range of information and see things in their broader context. You can take in more complexity, and see the interconnections. You're more likely to pick up on trends outside your industry that affect the positioning of your business and create new growth opportunities, and you're better able to see the business and its social system *holistically*, rather than as separate functions, units, or individuals.

Continually reframing improves the know-hows by helping create a more accurate picture of a problem, person, or phenomenon and a wider range of alternatives. By reframing, you come up with different ways of defining problems and novel solutions to them, such as turning a problem employee

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into a star performer by reframing your view of the person and finding where her talents fit best. Reframing will help you understand how special interest groups see your business and anticipate how Wall Street might respond to your choice of goals.

The point of course is to become aware of whatever human characteristics are blocking you from perceiving things accurately, making sound judgments, or taking effective business actions. Dissolving the blockages and expanding your cognitive range are essential for the know-hows to improve.

THE HUMBLE ORIGINS OF KNOW-HOW

I started my business experience in my family's shoe shop in India. It was there that I learned in the most visceral way about the know-hows of making a business work. The most basic lesson was that if there was no cash in the till at the end of the day, there was no food on the table. Constant vigilance about cash aligns your mind to know what customers buy, why they prefer to buy from you, and what to do when things don't sell. All these elements became part of my business acumen, a simple nucleus of thinking and decision making.

After receiving a degree in engineering in India, I went to Australia looking for a job. I was working as an engineering assistant in the drafting section of one of Australia's biggest companies when I had a chance encounter with the top research-and-development executive in the company, who invited me into his office to talk about the company. I asked him an innocent question and he was kind enough to take the time to explain the answer. He knew I had an engineering degree, but didn't know about my earlier obsession with cash and moneymaking in a business. Although only twenty at the time, I had read the company's annual report, and I asked an innocent question. What struck me was that the cash the

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company generated was less than the amount it paid in dividends. I hesitated to ask about it at first, because it was a finance question being asked by a junior draftsman. However, he had put me at ease and said that I could ask anything I wanted about the business. I took him at his word and asked if the company was borrowing money to pay its shareholders a dividend. He seemed shocked and bolted from his chair and moved toward me with a look that said, “How dare you come to this conclusion!” Such a possibility had never occurred to him and he seemed so surprised at the question that I thought I had just lost my job. He was a scientist and didn’t know the answer, but he was broad-minded enough to pick up the phone and call the chief financial officer to test my allegation. After a little hedging, the CFO confirmed that was the case.

That encounter opened the door to what became a four-hour session of questions and answers every two weeks for the next four years. Imagine the value of that kind of opportunity for a kid who grew up in a small town in India with lousy English skills and no real knowledge of Australia. His willingness to open up to me began to deepen my know-how of moneymaking in a large company and ultimately inspired me to leave engineering and go to the Harvard Business School. These conversations opened my eyes to the breadth, depth, and complexity of moneymaking in organizations and how it was similar to and different from my family’s shoe shop. It also spurred my interest in finding the underlying reasons leaders succeed and fail. Education didn’t seem to matter. One leader at this company had little formal education yet was succeeding handsomely, while another, a Baker Scholar from Harvard Business School, was failing. I’d hear people say things like “that man is a born leader” or “she’s got great presence,” but then the so-called born leaders would make colossal mistakes while seemingly unremarkable leaders knew what they were doing. Much of my career since has been a search for the know-how of success.

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My modus operandi for the past forty-five years, which is to do research by observing events in real time as they unfold, grew out of my experience in Australia. While my research has involved hundreds of companies, what has been especially significant is the duration of those relationships, many lasting several years. At more than a dozen companies, I've had a front-row seat for over a decade, and for some, several decades. As an observer and facilitator of many key meetings and discussions at the executive level, I was able to track leaders' actions and decisions and watch their behaviors. The results often have a time lag, but because I was there for a long period, I could see the impact on the company's overall finances and health in both the short and long term, thereby avoiding the risk of being caught up in the excitement of the day or the leader's charisma. My close involvement over time allowed me to see whether these leaders left their organizations better off in ways numbers don't always capture.

By giving me the chance to see many businesses being shaped, experimented with, and tested, and then observing the outcomes, these companies became a live laboratory for understanding the cause and effect of leadership practices. In addition, many of these companies have gone through two or more changes of leadership, giving me further insight into the difference individual leaders make and adding depth to the understanding of cause and effect.

The research underlying *Know-How* has thus been dynamic. Conventional research, conducted through questionnaires or interviews, tends to be static and retrospective. Companies are viewed at one point in time. In a static framework, leaders do something that is remarkable or noteworthy once. But leading a business is an ongoing process in which leaders have to repeatedly make decisions and take actions over long periods of time under changing conditions. Research

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done after the fact gives interviewees the opportunity to rewrite history, if only inadvertently. Reconstructing events through the lenses of multiple participants can create a fuller picture of events but is impractical to do.

Leadership is a messy phenomenon because there are so many things that influence it. What I have been doing is looking at these messy situations with their many variables, canceling out the uncontrollable factors, and extracting the substantive differences between leaders who deliver and those who don't. From that, I've developed a framework that practitioners can use. This has been possible only because the companies and leaders have allowed me to be present and shared with me their views and perceptions, all built on trust. Those conditions have allowed me to see what really underlies a leader's success. My research has led to a more complete theory of leadership, one that identifies business know-hows and explains how they interact with a leader's personality traits, psychological orientation, and cognitive architecture.

During the course of my research, I looked at the usual financial and quantitative measures of success, but I also took into account the intangibles, such as whether the leader strengthened the organization, for instance, by building a leadership pipeline or new organizational capabilities. I discarded many of the conventional explanations of success that may have been statistically correlated but showed little, if any, cause and effect. That helped me see the underlying foundation of business success and resulted in the eight know-hows that are the heart of this book.

Let's start the journey to understand and develop the critical know-hows and become self-aware of how personal attributes can help or hurt the cultivation of them. You already have a sense of how fast and frequent change is. You are very

K N O W - H O W

likely to need the know-how of positioning and repositioning to keep the business on a solid footing in such a changing world. In learning it, you'll have a chance to see how personal attributes such as optimism or pessimism or overambition can influence your judgment about how to position and reposition the business. This is the subject of the next chapter.