



## The Magic Triangle of Company and Career Health

(BECAUSE MOST OF US DON'T LIVE IN A WORLD OF AGGREGATE STATISTICS) RICH KARLGAARD

# What should businesses do when they hit a flat spot? What should entrepreneurs and managers do when their careers begin to stagnate?

I began to ask these questions after the 2007-2009 recession, America's worst dip since the Great Depression of the 1930s. The economic recovery that's followed has been mixed. Overall growth, measured by GDP, has averaged about 2% per year. This year will be better—around 2.5%—but that's still sluggish by historical standards. An optimist would say the economy is slowly but surely healing. A pessimist would say that America has entered a “new normal” of slower growth and higher unemployment.

But most of us don't live in a world of aggregate statistics. We get up in the morning and we go to work. Our businesses and our careers are either moving in the right direction or they are not. For too many of us, they are not. The Great Recession inflicted so much pain upon so many that it has led to widespread paralysis. Fierce competition and rapid technological change make it a perilous time to not be moving forward.

The image of poor health and paralysis here is intended. While giving speeches about the post-recession recovery, I began to wonder why some companies had blasted out of the recession in such fine shape while others had not yet escaped, as if sick or dysfunctional. When a human being is sick or dysfunctional—or just not thriving—the root cause is always found in one of three areas. Picture a triangle. One side is physical health. Another side is emotional. A third side is social. If you are thriving on just two sides but not on a third, your entire health is at risk. Ask an otherwise physically and mentally healthy person who is struggling with social health—going through a traumatic divorce, say.

What does robust health look like in a company or career? Can we find a similar triangle that can help us locate the root cause when our companies and careers are underperforming? I believe so. But warning: I will spend most of the time discussing the least appreciated side of the triangle—the soft edge—later in this piece.

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## SIDE ONE: The Strategic Edge

As Fred Smith, founder and CEO of FedEx recently told me: “The first priority of any organization is to get strategy right. You can have the best operations. But if you have a bad strategy, it’s all for naught. Think Digital Equipment. Think Lockheed in the commercial airplane business. There were forks in the road where these companies chose the wrong strategy. Absent a viable strategy, you’re in the process of going out of business.” Per Smith, if your company or career is failing to thrive, you might have a problem with your strategy. If you suspect so, Smith and others suggest you take a closer look at these five areas:

**Market:** What markets are you in now? Are they the right markets for your business? Should you enter some or exit others? What are the adjacent markets? What are the forces shaping these markets? Which of your markets are growing, and which are stagnating?

**Customers:** Who are your customers? Why do they buy your product? Who are your potential customers? Why have they *not yet* bought your product? Are your products priced right for your customers? How would your customers respond to higher prices? Lower prices?

**Competitors:** Who are your direct competitors? How do your competencies and products match up to theirs? Where are you better and where are you worse? What is your market position relative to theirs?

**Substitutes:** Who are your indirect competitors? Where would your customers go if you didn't exist? Do any of these substitutes threaten to become direct competitors? If so, does this suggest an opportunity for you to expand and acquire?

**Disrupters:** What are the technological game changers in your industry? Do you see new emerging players offering vastly cheaper or more convenient products than you can offer, even if these disrupters are not yet your direct competitors? Are these disruptive products finding new customers who were previously ignored? Are you losing valuable employees to these disrupters? When will you start to lose them?



## SIDE TWO: The Hard Edge

When Apple became the world's most valuable company in September 2012, its CEO was Tim Cook, who had been in the job for only thirteen months. Prior to that, Cook had been Apple's chief operating officer since 2007.

Cook was widely considered the best large-company operations manager in the world. What made Cook so effective? One, he was (and is) a workhorse. He typically begins e-mailing colleagues at 4:30AM. He often skips meals, munching on energy bars throughout the day.

On Sunday night, he convenes an Apple managers' meeting (by phone, thankfully) to talk about the week. Cook pushes himself to excellence and expects the same of his colleagues.

As told in a 2010 *Fortune* story by Adam Lashinsky, when an Apple manager described a problem with a factory in China, Cook's response was to stare incredulously. "*Why, then, are you here?*" Cook asked. "*Go to the airport now, get on a plane, and solve the problem.*" The manager didn't even bother to pack.

The second reason Cook was such a great COO is that he was a master of what I call the *hard edge* of business. These are five pillars that undergird the hard edge:

**Speed:** When Apple promises instant delivery of an advertised app on iTunes, it has to make this happen or its brand will suffer. The same thing goes with Amazon, which now is offering daily delivery of physical products in certain markets. The execution needed to make this happen is the sum of a lot of numbers. Are the servers working to full capacity? Are the trucks on time? Speed is also crucial to new product development. German software giant SAP blew up its organization of 20,000 developers and then reconfigured them into small agile teams to cut product development time by 60 percent.

**Cost:** Not all companies—certainly not Apple—compete on having the lowest price. But no company will succeed for long if it continually leaves money on the table because its costs

are poorly managed. That's money not available for R&D, for more salespeople, for higher bonuses for deserving employees, and for shareholders.

**Supply Chain:** Harvard Business School professor Michael Porter, the dean of strategy thinkers, would put suppliers into the strategy category. In his most famous book, *Competitive Strategy*, he asks two related questions: What leverage do your suppliers have over you? What leverage do you have over them? What has changed since Porter's seminal 1980 book is technology. Thanks to mobile and broadband, we now can monitor and report supply chain changes in real time. That's why I put supply chain on the hard-edge side.

**Logistics:** This is the *how* of the supply chain. Where are the airplanes? Where are the bottlenecks? When FedEx began operations in the 1970s, its logistics were managed largely in paper, including (hard to believe) a map of the U.S. with a string tacked to Little Rock, Ark., then FedEx's headquarters. The string could be stretched to represent the range of FedEx's small fleet of small jets. Today, FedEx's operations room in Memphis looks like a combination of a NASA control center and the Weather Channel.

**Capital Efficiency:** This hard-edge advantage is crucial to success. Are you using your capital to the best advantage? Say you are Southwest Airlines. How should you hedge your fuel purchases? This one decision can make or break airline profitability for the next five years.

Or say you are a fast-growing start-up but not yet profitable. Should you raise money by issuing stock? By expanding your credit line with your bank (assuming you can)? Tax strategies would also fall under capital efficiency. Healthy companies pay close attention to their capital structure.



## SIDE THREE: The Soft Edge

The soft edge is the side of deeper human longings and values. It is seemingly fuzzy and does not yield easily to the current rage for data and analysis. Not surprisingly, the soft edge is the most underestimated and oft-neglected side of the triangle. But do not dismiss the soft edge. It is the source of enduring strength.

Here I must warn you that the soft edge typically battles the company's hard-edge side for financial resources and, just as typically, fails to make its case. This mistake is costly in the long run, but it has three main reasons:

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1. The hard edge of business is easier to quantify. The metrics around speed, cost, supply chains, logistics, and capital efficiency are well understood. The data is relatively easy to come by, search, analyze, and manage.
2. Successful hard-edge investment provides a faster return on investment. Buying technology that trims costs or cuts time in a supply chain seems like a no-brainer.
3. CEOs, CFOs, COOs, boards of directors, and shareholders speak the language of strategy and finance. These people—the company’s hard-edgers—are experienced and comfortable with numbers. To these left-brained business titans, the soft edge looks like a realm of artists, idealists, hippies, poets, shrinks, and do-gooders. It’s almost like Mars versus Venus.

Does the hard edge, therefore, have the more convincing case in the fight for time and money? No—just an easier case. Here’s the case for investing time and money in your soft edge:

1. Soft-edge strength leads to greater brand recognition, higher profit margins, more loyal customers, and more committed employees. Soft-edge excellence is a ticket out of Commodityville.

2. Companies strong in the soft edge can often survive a big strategic mistake or cataclysmic disruption that would sink companies without a sturdy soft edge. Loyalty, passion, and commitment are the dividends of a strong soft edge.
3. Hard-edge strength provides a fleeting advantage. The hard edge is easier to clone than the soft edge, especially as technology and software become cheaper and more widely accessible.

For example, Apple's great design and loyal fan base—soft-edge advantages—are the essence of its enduring appeal, more than its supply chain and capital efficiency, great as those are. And what gives Starbucks its ultimate edge? Better coffee? Not exactly, say people who love coffee. Cheaper locations? Quite the opposite. It is soft-edge excellence—which includes trust, brand, and cheerful employees—that creates a consistently satisfying experience.

Here are the five pillars of the soft edge:

**Trust.** Whether it's the trust you have in yourself to be the best you can be at work, or a customer's trust in a company, trust is the foundational element of the soft edge.

Let me illustrate the importance of trust by asking you to imagine a career that most people would be loath to try—a commissioned sales job, selling to people who balk at buying your product. Life insurance fits this description. Yet Northwestern Mutual has built a \$25 billion

revenue juggernaut on that one word, trust. I talked to one manager who saw his productivity jump *fivefold* when he began to trust his career. That's not a marginal gain; it's transformational. Northwestern Mutual's core business should be ripe for technological disruption. Its business model, after all, is about probabilities and algorithms. But Wall Street financial firms and Silicon Valley entrepreneurs have not been able to dislodge Northwestern Mutual from its top spot. Trust trumps algorithms.

**Smarts.** In my research, I learned how outfits as diverse as Nest Labs, Mayo Clinic, and Stanford University women's basketball stay on top by relentlessly pursuing an advantage through experimenting and learning. In business, there is an unheralded dimension to being smart: one that relates to a few old-fashioned-sounding concepts like grit, perseverance, and hard work. Grit, for example, triggers an adaptive response, which causes learning. Such traits are fundamental to accelerating learning. They will help you adapt more quickly to disruptive trends.

**Teams.** How does FedEx's Fred Smith manage 300,000 worldwide team members who move more than 2.5 billion packages in a year? What balance of central authority and peripheral autonomy works in such a logistically complex organization? Or why, in an entirely different industry, did German software giant SAP blow up the management framework for its 20,000-person development department and replace it with small teams?

What I learned in my research was the power of small, high-performing teams of eight, ten, or twelve people. Jeff Bezos calls it the “two-pizza box” rule. If it takes more than two pizzas to feed the team, the team is too big. The best teams also apply cognitive diversity. This includes gender and ethnic diversity, but doesn’t stop there. It also includes age, thinking-style and even social-class diversity.

**Taste.** This is the word Steve Jobs used when he described Apple’s unique but universal aesthetic appeal. Jobs felt taste came from his own understanding of the yin-yang of science and humanity. The chief designer of Specialized Bicycles, Robert Egger, called it “the elusive sweet spot between data truth and human truth.” Nest Labs founder Tony Fadell said, “If you don’t have an emotional engagement, no one will care.” What kind of company can consistently make products or services that trigger these emotional touchpoints? And can you do it, too? How can you transform a flicker of imagination into a physical, tangible object that surprises and delights customers?

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**Story.** Companies that achieve lasting success, I've found, have an enduringly appealing story. Internally, stories fire up employees. Externally, stories are used to launch new brands and enhance the image of existing brands—a task made more difficult by today's many new forms of communication. Humans have evolved as storytellers—that's old news. But how do you deliver an eternally appealing story in the age of social media? Hint: Don't fight your customers, even when they fight you.

I hope this image of triangle—strategy, hard edge, soft edge—proves to be a good diagnostic tool if your company or career has hit a flat spot. If things are not going as you'd hoped, and you don't know exactly why, chances are you are weak on one side of the triangle: Perhaps you are not thinking deeply and clearly about your strategy. Maybe you are failing to execute in a timely, efficient manner, confused by the emergent role of data and analytics. Possibly you are weak on your soft edge and you have difficulty igniting passion and loyalty among your employees, customers, and perhaps even for yourself.

**Don't wait for your company and career to spontaneously heal! Take a trip around the triangle, find out what's wrong, and start fixing. You have nothing to lose but a flat performance. 📍**

# Info



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