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ECONOMIC VIEWPOINT

By Jeffrey E. Garten

Listen Up, Execs: Playing It Safe Won't Cut It

Industry can't climb out of its funk just by cutting costs and meeting quarterly goals. CEOs must bet on their vision

United Airlines Inc. (UAL) and other carriers are suffering under pressure from cheaper, no-frills rivals such as Southwest Airlines Co. (LUV) Electric-power companies such as Dynegy Inc. (DYN) are hurting from lack of financing. The telecoms are mired in overcapacity. Financial conglomerates such as J.P. Morgan Chase & Co. (JPM) are reeling from investigations into conflicts of interest. And as the AOL Time Warner Inc. (AOL) debacle shows, much of the media and entertainment business is not faring much better than other sectors.

Why are so many industries in a slump, their strategies confined to shedding operations, employees, and research? Why are their business models either uninspiring or deeply troubled? You've heard the explanations: The specter of war, the lackluster economy, the prospect of horrendous federal budget deficits. Corporations can't raise prices because of hypercompetition and low inflation. Investors are deserting the stock market. CEO behavior is heavily scrutinized by regulators.

All true. And given the risks and uncertainties, business leaders' preoccupation with managing their costs and for finely honing their strategies is understandable. Richard Parsons, AOL Time Warner's chairman and CEO, recently told *The New York Times*: "Now the game is just execute, execute, execute." His feelings are widespread; the book *Execution: The Discipline of Getting Things Done* by Larry Bossidy and Ram Charan has been on the *BusinessWeek* Best-Seller List for seven months.

But execution alone will not lead U.S. industry out of its funk. We can all agree that having a vision without the ability to carry it out is no more than wishful thinking. But the opposite is no better. What good is execution if the strategy and goals are the wrong ones? In fact, the emerging virus in American business culture could be the penchant for playing it too safe--settling for nothing more than getting things done and gearing everything to meeting quarterly targets, while failing to exercise enough imagination about where to go and what to be.

There's still a requirement for chief executives to take educated risks. True, we don't need "bet the company" deals. And we don't need CEOs who are rock stars. But let's not forget that dynamic capitalism isn't just about cutting costs or staying afloat. It's about thinking of how to make the future better and placing bets on that vision.

Andrew S. Grove, the chairman of Intel Corp. (INTC) who has weathered major economic cycles and competitive threats, put it this way to me: "Great execution is necessary but not sufficient. You have to survive, of course. But you have to thrive, too." Chief executives have to reduce expenses, he said, but some of those savings have to be invested in new possibilities for growth. "You can never come out of a downturn with only the same products that you had when you went into it. Leaders have to understand--at a gut level--the new possibilities that are out there."

Case in point: In the mid-1980s, Intel overcame a weak economy, overcapacity in the semiconductor industry, technological obsolescence, and ferocious Japanese competition. It emerged from this crisis by changing its key product from memory chips to microprocessors. Despite formidable pressures, it succeeded in reorganizing its entire production system--from the configuration of its factories to its inventory management--to deal with the emerging world of digitalization and cyberspace.

Harvard Business School historian Richard Tedlow agrees that CEOs may have become too single-minded. "American business has to move from an attitude of `anything but vision' to `nothing without vision,'" he told me. "Great leaders are both visionaries and superb hands-on managers," he said, pointing to legends such as Andrew Carnegie, Henry Ford, and George Eastman of Eastman Kodak Co. (EK) , all of whom transformed their industries with a combination of dreams and exquisite implementation. We have had such luminaries in more recent years, too: Sam Walton of Wal-Mart Stores (WMT), Fred Smith of Federal Express (FDX), William H. Gates III of Microsoft (MSFT), and Michael S. Dell of Dell Computer (DELL).

No one can deny that businesses face serious obstacles today, many not of their making, or that sound public policies can help. But is it pie in the sky to think that more chief executives will emerge to reshape their industries by creating valuable new products and services that will excite consumers, investors, and their own employees? Andy Grove is optimistic, although he believes these CEOs will come not from the bigger multinationals but from smaller, hungrier companies--the sort that Intel was when it rebounded. "The next generation of highly inventive leaders is out there," he said. "The most aggressive and the first off the mark will be big winners." The economy, as well as U.S. business culture, badly needs this shot in the arm--and sooner rather than later.

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