

FOREWORD BY TOM PETERS

AFTERWORD BY CLAYTON M. CHRISTENSEN

# THE SOFT EDGE

WHERE GREAT COMPANIES  
FIND LASTING SUCCESS



**RICH KARLGAARD**

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IBM Global Business Services

“For decades I have witnessed the power of teams, trust, and smarts in the most disruptive startups in Silicon Valley. *The Soft Edge* makes a powerful argument for why great businesses and products repeatedly derive from the creative friction, small teams, and minimally invasive management which the best leaders employ to achieve breakout success. I want to thank Rich Karlgaard for a wonderfully readable and actionable exploration of these too often overlooked skills.”

—**Randy Komisar**, partner, Kleiner Perkins Caufield,  
and Byers lecturer, Stanford Business School

“*The Soft Edge* is crystal clear, deeply substantial, and alarmingly concrete. It illumines what an organization might be—what it must be if it is to impact the world and elevate the human spirit (and run a profit). To read it is an exercise in conviction.”

—**John Ortberg**, senior pastor of Menlo Park Presbyterian  
Church and author of *Who Is This Man?*

"I love this book. From the first page to the last it's a real pleasure to read, and without a doubt the most enjoyable business book in a very, very long time. It's smart, intelligent, and fun. That's because Rich Karlgaard understands the craft of writing and the art of business. He treats us to great stories and in-depth case studies that often read like edge-of-your-seat thrillers. And don't let the title fool you. Sure, it's about things like trust and teams and taste and stories, but it's rich in tangible, hard evidence that proves the power of these qualities. *The Soft Edge* is on my short list of best business books of the year. I think it'll end up on yours, too."

—**Jim Kouzes**, coauthor of *The Leadership Challenge*  
and Dean's Executive Fellow of Leadership, Leavey  
School of Business, Santa Clara University

"The workplace is facing unprecedented global challenges. Tomorrow's leaders must inspire their teams across a host of new boundaries—geographic, generational, economic, cultural, and technological—to name a few. The greatest will be those who can leverage their soft skills to motivate. In the world of big data, human skills will be the big differentiator! Learn more about twenty-first-century leadership in *The Soft Edge*—a wonderful, easy-to-read, and insightful corpus by longtime business innovator Rich Karlgaard. It's hard to find a more experienced, intelligent guide to help you and your company make the necessary leaps."

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at Duke University's Center for Entrepreneurship  
and Research Commercialization

"There has never been a more challenging (but potentially rewarding) time to lead. As is often the case, Rich Karlgaard once again successfully 'zigs' with his clever premise of *The Soft Edge*. Flush with innovative ideas collected from his unique vantage point, he offers countless refreshing tips for tomorrow's leaders. Net—a terrific blueprint for a wide range of executives who are serious about leading teams to victory in the new frontier. A must-read!"

—**Greg Welch**, senior partner, Spencer Stuart,  
marketing and board recruiting practice



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Rich Karlgaard

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*This book is dedicated to . . .*

Great coaches and overachieving teams

Employers who give dignity with pay

All who show courage and grace



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# Foreword

Tom Peters

**B**ob Waterman and I were hard-nosed guys. Both McKinsey consultants. Both engineers (Bob, mining; me, civil). Both Stanford MBAs. Life for us began and ended with beady-eyed analysis. We also had a McKinsey-ite's view of corporate America. Among other things, we worked in McKinsey's San Francisco office, on the forty-eighth floor of what was then the Bank of America headquarters. A couple of floors above us were the palatial offices of the bank's CEO. Oaken doors, as I recall, that reached into the city's fabled fog. The chief was protected from humanity by a phalanx of underlings in Savile Row attire.

Nonetheless, we found ourselves one afternoon in 1977 driving thirty miles down U.S. 101, turning onto Page Mill Road, and turning in to another corporate headquarters. That of Hewlett-Packard. HP had just crossed the \$1 billion revenue threshold at the time. We had an appointment, gained without the least bit of bureaucratic folderol, with HP president John Young. Upon our

arrival, John trotted out to greet us and ushered us to his office. Or is that the wrong word? It was in fact a half-walled cubicle, about ten feet by ten feet, that he shared with a secretary.

Hmmmm.

A half hour later, lightning struck. Mr. Young introduced us to what became a life-altering idea. Within the scope of the fabled HP Way, it was a notion fondly called “MBWA.” Or Managing By Wandering Around. Get the hell out of the office, hang out with the engineers (or purchasing guys or whomever), exchange ideas, and take the pulse of the enterprise where the work was actually done.

Now jump ahead five years. Bob and I have written a book titled *In Search of Excellence*, and though it was the early days after publication, a lot of folks seemed to be buying it. We were in New York, heading for an early morning Bryant Gumbel interview on the *Today Show*. In the so-called green room, Bob looked at me with a wry smile and said, “Okay, who gets to say ‘MBWA’ on national TV?” He was my senior and I demurred.

We called MBWA part of the “soft stuff.” It stood for being in touch with your customers, in touch with your employees in even a big firm. It stood for high-speed innovation fueled by a willingness to cobble together a quick prototype and get everybody playing with it at a fast clip. It was a long way from those mighty BofA oaken doors and assistants to assistants who still resided two floors above us in our San Francisco digs.

We were still engineers. We still analyzed the hell out of any data we could unearth. But now—thanks to HP and 3M and Johnson & Johnson and about forty others of their ilk—we had a fuller picture of sustaining excellent performance. Yes, the “hard stuff” damn well mattered. But it turned out, to horribly mix a metaphor, that the “bedrock of excellence” was that “soft stuff.”

The values around engaging 100 percent of our staff's effort and imagination, of intimately hooking up with and co-inventing with our customers, trying out cool stuff in a flash without a thousand pre-clearances and shrugging off the inevitable screw-ups and getting on with the next try posthaste.

Bob and I had discovered things we hadn't expected and that messed with our preconceptions. The ideas and stories from *In Search of Excellence* were hardly "the answer," but we did help nudge a new model of enterprise management toward the forefront.

Times have changed—or have they? To be sure, the HP Way took a wrong turn with a succession of CEOs that managed by the numbers and strangled the essence of HP. As illustrated in the 1990s by Enron and WorldCom, and then in the early 2000s by sub-prime fiascos, and now by too many reality-free, numbers obsessed, models-r-us gangs, companies can ascend high up the economic pyramid before it all collapses.

Time for a reset?

I think it is high time for a reset, and that brings me to the delightful task of cheering on the birth of a new and necessary revolution heralded by Rich Karlgaard's magisterial *The Soft Edge*. As publisher of *Forbes*, Rich, not unlike Bob Waterman and me, brings impeccable logic and hard economics credentials to his task. And also like Bob and me, or even more so, in *The Soft Edge* he hardly runs away from the analytical side of things.

Rich offers and defends a balanced triangle of forces: "hard edge" (the systems and processes that guide complex execution tasks); "strategic base" (you stumble and tumble fast if you don't have a clear strategic direction); and, his focus in this book, "soft edge" (oft ignored or underplayed, it provides human values and resilience in a mind-bogglingly nutty world).

The heart of the book, not unlike the “eight basics” at the heart of *In Search of Excellence*, consists of chapters that examine in colorful and instructive detail the principal components of the soft edge:

- Trust
- Smarts
- Teams
- Taste
- Story

Of the five components that make up the soft edge (or five pillars as Rich calls them), the basic element labeled “taste” (which clearly underpins the likes of Apple’s mind-warping success), is where Rich offers an example that pulls the entire book together for me. Though the author lives and plies his trade at the center of Silicon Valley, he purposefully reached out to every corner of the economy. Consider this telling remark by Robert Egger, the chief designer of Specialized Bicycles. Egger calls “taste” the “elusive sweet spot between data truth and human truth. . . . You want something that works great and is really emotionally charged.” The hard edge and strategic base are indeed required—but they amount to little more than a piffle without the more-or-less sustainable differentiation contributed by the soft edge.

I must admit, in the softest of language, that I nothing less than love this book. I have been fighting the “soft edge war” since 1977—that is, thirty-seven bloody years. It is in fact a war that cannot be won. I fervently and unstintingly believe in balance (as embodied in Karlgaard’s triangle of forces). But I also believe that the default position will always favor the strategic



base and the hard edge, and that the soft edge, without constant vigilance, will always be doomed to the short (often very short) end of the resource and time-and-attention stick. And yet, as is demonstrated here so brilliantly, in general and perhaps today more than ever, only a robust and passionately maintained commitment to a vibrant soft edge will up the odds of sustaining success and, yes, excellence, in these days of accelerating change.

In short, ignore the argument in this marvelous book at your peril.



# Preface

## *A Tale of Transformation— and Lasting Productivity Gains*

**I**n business, marginal gains add up. That's why we spend so much time looking for them. If we can reduce costs by 2 percent here and cut development time by a month there, it makes a difference. Good companies relentlessly seek these kinds of improvements and never stop. But great companies do more than that. They dig deeper to find transformative gains. Let me illustrate this by way of an amazing story of one person's transformation.

In October 2001, Roberto Espinosa, a thirty-one-year-old resident of San Antonio, Texas, stepped onto the platform of the service elevator at Manduca, his restaurant in the city's fashionable River Walk district. It was like stepping into air. The platform suddenly gave way. It plunged thirty feet to the basement and slammed onto concrete.

Dazed, Espinosa crawled out of the elevator shaft. He slipped in and out of consciousness. He barely remembers the arrival of

first responders. They carefully immobilized Espinosa's neck, strapped him onto a gurney, and drove him the five miles to Brook Army Medical Center. Six hours of intensive care followed. Espinosa survived, but his road to recovery proved long and painful.

Espinosa had always sought an independent life. He had a natural predisposition for business. His family ran a furniture shop called De Firma in Mexico. It soon expanded into San Antonio under the name Home Emphasis. Growing up, Espinosa assumed he would go into the family business. But as time passed, he had an urge to prove himself outside the family cocoon and take on new risks.

So he started Manduca. This declaration of independence was either brave or dumb. Restaurants, with a three-year failure rate of 60 percent, are among the riskiest of businesses. Espinosa's wife, Lourdes, insisted they mitigate their risk by purchasing life and disability insurance for Roberto. "I didn't know much about insurance. So I called somebody I knew, Fernando. I trusted Fernando."

The trust paid off. After Espinosa's elevator crash and near death, Fernando Suarez was a frequent visitor to the hospital, visiting almost as often as Espinosa's family. "He was always there," said Espinosa. "As a friend, not a salesman."

Selling would have been futile, anyway. Espinosa had no money to buy more insurance policies. The 9/11 terrorist attacks had turned a mild 2001 recession into something worse. The travel and hospitality business was particularly hard-hit. In 2002 the physically fragile Espinosa was forced to close Manduca. He had never experienced failure like that.

Suarez noticed the drain on Espinosa's wallet, the decline in his confidence. He invited Espinosa to try out as a representative

at his insurance company, Northwestern Mutual. Espinosa accepted.

But what does it mean, really, to accept a job selling insurance? These jobs pay only on commission. Is this a real career? Or is it a foolish gamble at a vulnerable point in one's life? "The first three years were very difficult," admitted Espinosa. "I had trouble making the sales phone calls. My prospects sensed my lack of conviction. I was so discouraged that I cleaned out my desk three times."

Coaching and mentorship got Espinosa through that rough beginning. Income started to trickle in. Still, it was tough to survive, to pay the bills and keep going. Then came a turning point that changed Espinosa's career forever. "I was at a funeral for a client," he said. "The deceased man's eight-year-old daughter got up and said she missed her daddy. Then she said her family would be okay. I got tears hearing that from an eight-year-old girl. I suddenly knew that what I was doing was very important work."

That day, Espinosa found his conviction. In a few short years he became one of Northwestern Mutual's top recruiters of new reps in San Antonio. Espinosa estimates his productivity increased roughly *fivefold* when his conviction switch turned on. That is not a marginal gain. It is something far bigger. For Espinosa and the company he represents, the gains are still adding up, still compounding.

Most companies hope for transformative events like these. Great companies, I've observed, know where to plant the seeds.

*Palo Alto, California*  
*February 2014*

Rich Karlgaard





# A Wellspring of Enduring Innovation

## *The Soft Edge*

**I**nnovate or die. The choice is not optional. The clock is ticking. If this sounds a bit melodramatic, it is also the truth. Disruptive waves seem to hit our companies more frequently than before. If we are to survive and prosper, innovation needs to be more than a one-time event. It must be perpetual, built-in, an automatic response to challenges and changes.

The “innovation response” in companies is very much like a healthy immune response in living organisms. People who enjoy long-term health don’t have episodic bursts of health. They are healthy nearly all the time. Their immune systems routinely fight off most threats. Can the same be true of companies? The analogy fits. In great companies, innovation is a natural response to threats.

Why, then, do some companies have a more robust innovation response than others? From where does such vitality come? From the chief executive? This might be true in a small

percentage of companies. But even for those relatively few, it is worth noting that CEOs don't stay on the job forever.

From clever strategy? If you think so, then you must believe your strategy will always be the correct one. But in all of industrial history, you will not find a single company that has always had a great strategy. History is littered with apparently solid companies suddenly undone by wrong strategic assumptions and bad bets. Eastman Kodak, Digital Equipment, MySpace anyone?

From flawless execution? Dell, with the fastest-growing stock in the 1990s, is legendary for its tight control of costs, mastery of supply chain, speed of delivery, and other flawlessly executed skills. Dell's smooth operations worked brilliantly in an era of PCs and laptops and corporate information technology departments that purchased both types of product for company employees. Then Dell's perfect execution model was suddenly not enough to sustain greatness. It was trumped by a shift toward smart phones and tablets and by employees' bringing their own technology to work.

Maybe it comes from large bets on research and development? That's certainly implied when you read an annual report and the company brags about the size of its R&D budget. (What company *doesn't* brag about this?) But R&D, while critically important to an innovative response and future health, is not sufficient by itself.

Finally, how about having an army of technology wizards to apply the latest cutting-edge advantages in big data, cloud, mobile, social, and so forth? Ah, that must be it! Think again. A technology advantage doesn't last as long as it once did. Consider weeks and months, not years and decades.



A healthy innovative response comes from a deeper place within your company. But it begins somewhere, and that somewhere is what I call the *soft edge*.

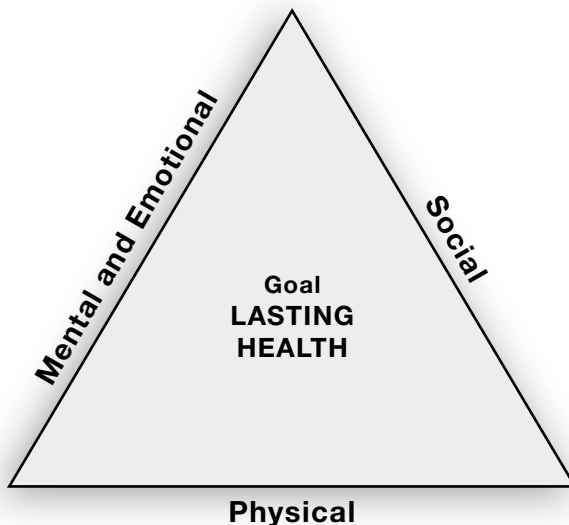
## HOW A SIMPLE TRIANGLE CAN PREDICT LONG-TERM HEALTH

In the biological world, we know that a healthy organism has a better chance of surviving and adapting to change than an unhealthy one. No news here. Now let's suppose we want to predict any person's chances for long-term health. Can we do it? One framework for doing so is a simple equal-sided triangle like the one in Figure 1.1.

A person with the best chances of enjoying long-term health is one who is healthy on *all* sides of the triangle. Such a person will possess *physical* health—robust energy, few illnesses, and easy

**Figure 1.1** Health Triangle

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mobility, whether for work or leisure. Good *mental and emotional* health is a second component of well-being. This does not equate to a life of bliss, of course. It means a person will have a balanced perspective, understand cause and effect, have the ability to plan ahead, and be able to function even in difficult circumstances. The triangle's third side, *social* health, implies that people have a better shot at living a healthy life when surrounded by family, friends, and colleagues, in environments with low crime and stable rule of law, social cohesion, and economic opportunity. Remove any of these social pillars—live in a war-torn country, say—and your health prospects will be jeopardized, even if you're currently physically and mentally strong.

Seen this way, a trip around the health triangle can quickly reveal *where* a person would be at risk of not enjoying long-term health.

## THE TRIANGLE OF LONG-TERM COMPANY SUCCESS

Now let's get down to business. Suppose we drew a triangle similar to the one that predicts long-term personal health. Only this triangle would predict a company's chances for lasting success. In its most basic form, it would look like Figure 1.2.

Here's a quick trip around the triangle, starting with the bottom, the *strategic base*. How important is getting your company's strategy right? When I visited Fred Smith, the founder, CEO, and chairman of FedEx, at his Memphis headquarters, he said it was his company's top priority.

### **The Strategic Base—Fundamental**

As Fred Smith told me: "The number one thing that every organization has to get right is strategy. You can have the best

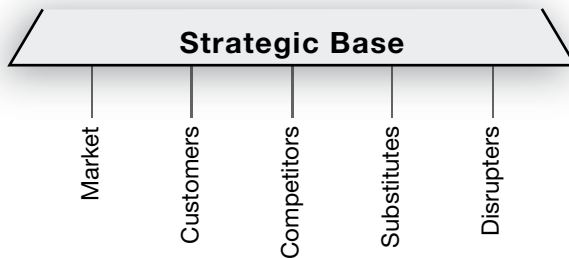
**Figure 1.2** Triangle of Long-Term Company Success

operations. You can be the most adept at whatever it is that you're doing. But if you have a bad strategy, it's all for naught. Think Digital Equipment. Think Wang. 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."

This isn't a book on strategy. But you won't be able to understand the difference between the soft edge and strategy unless you have a clear understanding of what strategy really is. So let's take a quick look. When you talk to the best CEOs—who, like Smith, have proven themselves over several business cycles and market shifts—and when you further read classic business strategy books such as (to name only three of the best) *Competitive Strategy* by Michael Porter, *The Innovator's Dilemma* by Clayton Christensen, and *Playing to Win: How Strategy Really*

**Figure 1.3** Strategic Base

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*Works* by A. G. Laffley and Roger Martin, you keep coming back to the five pillars of strategy illustrated in Figure 1.3. To take them each in turn:

*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 these substitutes threaten to become direct competitors? Or do they suggest an opportunity for you to expand and acquire?