Transforming Corner-Office Strategy into Frontline Action

by Orit Gadiesh and James L. Gilbert

It's a challenge that confronts every company, large and small: how do you give employees clear strategic direction but also inspire flexibility and risk taking? One answer is to create and broadcast a “strategic principle”—a pithy, memorable distillation of strategy that guides employees as it empowers them.

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Southwest Airlines keeps soaring. Its stock price rose a compounded 21,000% between 1972 and 1992 and leapt 300% between 1995 and 2000. Why does Southwest succeed while so many other airlines fail? Because it sticks to its powerful strategic principle: “Meet customers’ short-haul travel needs at fares competitive with the cost of automobile travel.” This pithy, memorable, action-oriented phrase distills Southwest’s unique strategy and communicates it throughout the company.

An effective strategic principle lets a company simultaneously:
- maintain strategic focus,
- empower workers to innovate and take risks,
- seize fleeting opportunities,
- create products and services that meet subtle shifts in customers’ needs.

In today’s rapidly changing world, companies must integrate decentralized decision making with coherent, strategic action. A well-crafted, skillfully implemented strategic principle lets them strike that delicate balance.
It's a challenge that confronts every company, large and small: how do you give employees clear strategic direction but also inspire flexibility and risk taking? One answer is to create and broadcast a “strategic principle”—a pithy, memorable distillation of strategy that guides employees as it empowers them.

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We all know the benefits of pushing decision making from the CEO’s office out to the far reaches of an organization. Fleeting business opportunities can be seized quickly. Products and services better reflect subtle shifts in customers’ preferences. Empowered workers are motivated to innovate and take risks.

But while the value of such an approach is clear, particularly in a volatile business environment, there is also a built-in risk: an organization in which everyone is a decision maker has the potential to spin out of control. Within a single company, it’s tricky to achieve both decentralized decision making and coherent strategic action. Still, some companies—think General Electric, America Online, Vanguard, Dell, Wal-Mart, Southwest Airlines, and eBay—have done just that.

These companies employ what we call a strategic principle, a memorable and actionable phrase that distills a company’s corporate strategy into its unique essence and communicates it throughout the organization. (For a list of companies’ strategic principles, see the exhibit “It’s All in a Phrase.

This tool—which we have observed in use at about a dozen companies, even though they don’t label it as such—would always serve a company well. But it has become particularly useful in today’s rapidly and constantly changing business environment. Indeed, in our conversations and work with more than 50 CEOs over the past two years, we have come to appreciate the strategic principle’s power—its ability to help companies maintain strategic focus while fostering the flexibility among employees that permits innovation and a rapid response to opportunities. Strategic principles are likely to become even more crucial to corporate success in the years ahead.

Distillation and Communication

To better understand what a strategic principle is and how it can be used, it may be helpful to look at a military analogy: the rules of engagement for battle. For example, Admiral Lord Nelson’s crews in Britain’s eighteenth-century wars against the French were guided
It sets clear boundaries within which employees must operate while granting them freedom to experiment within those constraints. A strategic principle enables people to do something now. A mission statement is meant to inspire frontline workers. A strategic principle enables them to act quickly by giving them explicit guidance to make strategically consistent choices.

The beauty of having a corporate strategic principle—a company should have only one—is that everyone in an organization, the executives in the front office as well as people in the operating units, can knowingly work toward the same strategic objective without being rigid about how they do so. Decisions don't always have to make the slow trip to and from the executive suite. When a strategic principle is well crafted and effectively communicated, managers at all levels can be trusted to make decisions that advance rather than undermine company strategy.

Given what we've said so far, a strategic principle might seem to be a mission statement by another name. But while both help employees understand a company's direction, the two are different tools that communicate different things. A mission statement informs a company's culture. A strategic principle drives a company's strategy. A mission statement is aspirational: it gives people something to strive for. A strategic principle is action oriented: it enables people to do something now. A mission statement is meant to inspire frontline workers. A strategic principle enables them to act quickly by giving them explicit guidance to make strategically consistent choices.

Consider the difference between GE's mission statement and its strategic principle. The company's mission statement exhorts GE's leaders—“always with unyielding integrity”—to be “passionately focused on driving customer success” and to “create an environment of ‘stretch,’ excitement, informality, and trust,” among other things. The language is aspirational and emotional. By contrast, GE's well-known strategic principle—“Be number one or number two in every industry in which we compete, or get out”—is action oriented. The first part of the phrase is an explicit strategic challenge, and the second part leaves no question in line managers' minds about what they should do.

Three Defining Attributes
A strategic principle, as the distillation of a company's strategy, should guide a company's allocation of scarce resources—capital, time, management's attention, labor, and brand—in order to build a sustainable competitive advantage. It should tell a company what to do and, just as important, what not to do. More specifically, an effective strategic principle does the following:

- It forces trade-offs between competing resource demands;
- It tests the strategic soundness of a particular action;
- It sets clear boundaries within which employees must operate while granting them freedom to experiment within those constraints.

These three qualities can be seen in America Online's strategic principle. CEO Steve Case says personal interaction on-line is the soul of the Internet, and he has positioned AOL to create that interaction. Thus, AOL's strategic principle in the years leading up to its recent merger with Time Warner has been “Consumer connectivity first—anytime, anywhere.” This strategic principle has helped AOL make tough choices when allocating its re-

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sources. For example, in 1997, the company needed cash to grow, so it sold off its network infrastructure and outsourced that capability—a risky move at a time when it appeared that network ownership might be the key to success on the Internet. In keeping with its strategic principle, AOL instead spent its time and cash on improving connectivity at its Web site, focusing particularly on access, navigation, and interaction. As a result, it avoided investing capital in what turned out to be a relatively low-return business.

Its strategic principle has also helped AOL test whether a given business move makes strategic sense. For instance, the Internet company has chosen to expand its global network through alliances with local partners, even though that approach can take longer than simply transplanting AOL's own technology and know-how. AOL acknowledges that a local partner better understands the native culture and community, which is essential for connecting with customers.

Finally, AOL's strategic principle has spurred focused experimentation in the field by clearly defining employees' latitude for making moves. For example, AOL's former vice president of marketing, Jan Brandt, mailed more than 250 million AOL diskettes to consumers nationwide. The innovative campaign turned the company into one of the best-known names in cyberspace—all because Brandt, now AOL's vice chair and chief marketing officer, guided by the principle of connecting consumers, put her resources into empowering AOL's target community rather than sinking time and money into slick advertising.

As AOL's experience illustrates, a strong strategic principle can inform high-level corporate decisions—those involving divestitures, for example—as well as decisions made by department heads or others further down in an organization. It also frees up CEOs from constant involvement in the implementation of their strategic mandates. "The genius of a great leader is to leave behind him a situation that common sense, without the grace of genius, can deal with successfully," said journalist and political thinker Walter Lippman. Scratch the surface of a number of high-performing companies, and you'll find that strategic principles are connecting the strategic insights—if not always the genius—of leaders with the pragmatic sense of line operators.

Now More Than Ever
In the past, a strategic principle was nice to have but was hardly required, unless a company found itself in a trying business situation. Today, many companies simultaneously face four situations that make a strategic principle crucial for success: decentralization, rapid growth, technological change, and institutional turmoil.

For the reasons mentioned above, decentralization is becoming common at companies of all stripes; thus, there is a corresponding need for a mechanism to ensure coherent strategic action. Especially in the case of diversified conglomerates, where strategy is formed in each of the business units, a strategic principle can help executives maintain consistency while giving unit managers the freedom to tailor their strategies to meet their own needs. It can also clarify the value of the center at such far-flung companies. For example, GE's long-standing strategic principle of always being number one or number two in an industry offers a powerful rationale for how a conglomerate can create value but still give individual units considerable strategic freedom.

A strategic principle is also crucial when a company is experiencing rapid growth. During such times, it's increasingly the case that less-experienced managers are forced to make deci—

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<tr>
<th>Company</th>
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<td>America Online</td>
<td>Consumer connectivity first—anymtime, anywhere</td>
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<td>Dell</td>
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<td>Wal-Mart</td>
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Bain & Company: Case Study of a Strategic Principle

I learned the most about strategic principles in the trenches at Bain & Company when, a decade ago, we almost went bankrupt.

Bill Bain founded Bain & Company nearly 30 years ago on the basis of a simple but powerful notion: “The product of a consultant should be results for clients—not reports.” Over time, this mandate to deliver results through strategy became Bain’s strategic principle. It remains so today.

This directive fosters specific action, as an effective strategic principle should. It means that, from the very beginning of an assignment, you are constantly thinking about how a recommendation will get implemented. It also requires you to tell clients the truth, even if it’s difficult, because you can’t achieve results by whitewashing problems. And this strategic principle has teeth: Bain has always measured partners’ performance according to the results they achieve for their clients, not just on billings to the firm.

That was the company I joined. And for many years it grew rapidly, all the time guided by its strategic principle. Then, just over a decade ago, the founding partners decided to get their money out and sold 30% of the firm to an employee stock-option plan. This saddled us with hundreds of millions of dollars of debt and tens of millions of dollars of interest payments. The move, whose details initially were not disclosed to the rest of us, was based on the assumption that the company would continue its historic growth rate of 50% a year, which couldn’t be sustained at the size we had become. When growth slowed, the details came to light.

The nonfounding partners faced a critical choice. Everybody had attractive offers. Competitors and the press predicted we wouldn’t survive. Recruits and clients were watchful. To make a long story short, we sat down around a conference table and resolved to turn the company around. The key to doing that, we decided, was to stick with our strategic principle.

What followed was a couple of years during which adhering to that goal was achingly difficult. But doing so forced important trade-offs. A new CEO can bring with him or her a new strategy—but not necessarily a new strategic principle. For instance, when

sions about nettlesome issues for which there may be no precedent. A clear and precise strategic principle can help counteract this shortage of experience. This is particularly true when a start-up company is growing rapidly in an established industry. For instance, as Southwest Airlines began to grow quickly, it might have been tempted to mimic its rivals’ ultimately unsuccessful strategies if it hadn’t had its own strategic principle to follow: “Meet customers’ short-haul travel needs at fares competitive with the cost of automobile travel.” Likewise, eBay, whose principle is “Focus on trading communities,” might have been tempted, like many Internet marketplaces, to diversify into all sorts of services. But eBay has chosen to outsource certain services—for instance, management of the photos that sellers post on the site to illustrate the items they put up for bid—while it continues to invest in services like Billpoint, which lets sellers accept credit-card payments from bidders. eBay’s strategic principle has ensured that the entire company stays focused on the core trading business.

The staggering pace of technological change over the past decade has been costly for companies that don’t have a strategic principle. Never before in business has there been more uncertainty combined with so great an emphasis on speed. Managers in high-tech industries in particular must react immediately to sudden and unexpected developments. Often, the sum of the reactions across the organization ends up defining the company’s strategic course. A strategic principle—for example, Dell’s mandate to sell direct to end users—helps ensure that the decisions made by front-line managers in such circumstances add up to a consistent, coherent strategy.

Finally, a strategic principle can help provide continuity during periods of organizational turmoil. An increasingly common example of turmoil in this era of short-term CEOs is leadership succession. A new CEO can bring with him

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Jack Brennan took over as chairman and CEO at Vanguard five years ago, the strategic transition was seamless, despite some tension around the leadership transition. He maintained the mutual fund company’s strategic principle—“Unmatchable value for the investor-owner”—thereby allowing managers to pursue their strategic objectives without many of the distractions so often associated with leadership changes. (For our own experience with organizational turmoil and strategic principles, see the sidebar “Bain & Company: Case Study of a Strategic Principle.”)

Strategic Principles in Action
Strategic principles and their benefits can best be understood by seeing the results they create.

Forcing Trade-Offs at Southwest Airlines. Southwest Airlines is one of the air-travel industry’s great success stories. It is the only airline that hasn’t lost money in the past 25 years. Its stock price rose a compounded 21,000% between 1972 and 1992, and it is up 300% over the past five years, which have been difficult ones in the airline industry. For most companies, such rapid growth would cause problems: legions of frontline employees taking up the mantle of decision making from core executives and, inevitably, stumbling. But in Southwest’s case, employees have consistently made trade-offs in keeping with the company’s strategic principle.

The process for making important and complicated decisions about things like network design, service offerings, route selection and pricing, cabin design, and ticketing procedures is straightforward. That’s because the trade-offs required by the strategic principle are clear. For instance, in 1983, Southwest initiated service to Denver, a potentially high-traffic destination and a seemingly sensible expansion of the company’s presence in the Southwestern United States. However, the airline experienced longer and more consistent delays at Denver’s Stapleton airport than it did anywhere else. These delays were caused not by slow turnaround at the gate but by increased taxi time on the runway and planes circling in the air because of bad weather. Southwest had to decide whether the potential growth from serving the Denver market was worth the higher costs associated with the delays, which would ultimately be reflected in higher ticket prices. The company turned to its strategic principle: would the airline be able to maintain fares competitive with the cost of automobile travel? Clearly, in Denver at least, it couldn’t. Southwest pulled out of Stapleton three years after inaugurating the service there and has not returned.

Testing Action at AOL. A large part of AOL’s ability to move so far and so fast across untrod ground lies in its practice of testing potential moves against its strategic principle. Employees who see attractive opportunities can ask themselves whether seizing one or several will lead to deeper consumer connectivity or broader distribution. Take, for example, line manager Katherine Borescnik, now president of programming at AOL. Several years ago she noticed increased activity—call it consumer connectivity—around the bulletin-board folders created on the site by two irreverent stock analysts and AOL subscribers. She offered the analysts the chance to create their own financial site, which became Motley Fool, a point of connection and information for do-it-yourself investors.

And AOL’s strategic principle reaches even deeper into the organization. The hundreds of acquisitions and deals that AOL has made in the past few years have involved numerous employees. While top officers make final decisions, employees on the ground first screen opportunities against the company’s strategic principle. Furthermore, the integration efforts following acquisitions, while choreographed at the top, are executed by a coterie of managers who ensure that the plans comply with the company’s strategic principle. “We have succeeded, both in our deal making and in our integration, because our acquisitions have all been driven by our focus on how our customers communicate and connect,” says Ken Novack, AOL Time Warner’s vice chairman.

AOL’s massive merger with Time Warner clearly furthers AOL’s strategic principle of enabling consumer connections “anytime, anywhere” by adding TV and cable access to the Internet company’s current dial-up access on the personal computer. But integrating this merger, which will involve hundreds of employees making and executing thousands of decisions, may be the ultimate test of AOL’s strategic principle.

Experimenting Within Boundaries at Vanguard. The Vanguard Group, with $565 billion in assets under management, has quietly be-
come a giant in the mutual fund industry. The company’s strategy is a response to the inability of most mutual funds to beat the market, often because of the cost of their marketing activities, overhead, and frequent transactions. To counter this, Vanguard discourages investors from making frequent trades and keeps its own overhead and advertising costs far below the industry average. It passes the savings directly to investors, who, because Vanguard is a mutual rather than a public company, are the fund’s owners.

While this was Vanguard’s founding strategy, for years the company didn’t communicate it widely to employees. As a result, they often suggested initiatives that were out of sync with the company’s core strategy. “Midlevel managers would walk in holding the newspaper saying, ‘Look at what Fidelity just did. How about if we do that?’” Jack Brennan says. It wasn’t apparent to them that Vanguard’s strategy was very different from that of its rival, which has higher costs and isn’t mutually owned. Over the years, Vanguard has invested considerable energy in crafting a strategic principle and using it to disseminate the company’s strategy. Now, because employees understand the strategy, top management trusts them to initiate moves on their own.

Consider Vanguard’s response to a major trend in retail fund distribution: the emergence of the on-line channel. Industry surveys indicated that most investors wanted Internet access to their accounts and that on-line traders were more active than off-line traders. So Vanguard chose to integrate the Internet into its service in a way that furthered its strategy of keeping costs low: basically, it lets customers access their accounts on-line, but it limits Web-based trading. It should be noted that the original ideas for Vanguard’s on-line initiatives, including early ventures with AOL, were conceived by frontline employees, not senior executives.

Brennan says the company’s strategic principle affects the entire management process, including hiring, training, performance measurement, and incentives. He points to a hidden benefit of having a strong strategic principle: “You’re more efficient and can run with a leaner management team because everyone is on the same page.”

Creating a Strategic Principle
Many of the best and most conspicuous examples of strategic principles come from companies that were founded on them, companies such as eBay, Dell, Vanguard, Southwest Airlines, and Wal-Mart (“Low prices, every day”). The founders of those companies espoused a clear guiding principle that summarized the essence of what would become a full-blown business strategy. They attracted investors who believed it, hired employees who bought into it, and targeted customers who wanted it.

Leaders of long-standing multinationals, like GE, crafted their strategic principles at a critical juncture: when increasing corporate complexity threatened to confuse priorities on the front line and obscure the essence that truly differentiated their strategy from that of their rivals.

Companies in this second category, which represents most of the companies that are likely to contemplate creating a strategic principle, face a demanding exercise. It probably comes as no surprise that identifying the essence of your strategy so it can be translated into a simple, memorable phrase is no easy task. It’s a bit like corporate genomics: the principle must isolate and capture the corporate equivalent of the genetic code that differentiates your company from its competitors. This is somewhat like identifying the 2% of DNA that separates man from monkey—or, even more difficult and more apt, the .1% of DNA that differentiates each human being.

There are different ways to identify the elements that must be captured in a strategic principle, but keep in mind that a corporate strategy represents a plan to effectively allocate scarce resources to achieve sustainable competitive advantage. Managers need to ask themselves: how does my company allocate those resources to create value in a unique way, one that differentiates my company from competitors? Try to summarize the answer in a brief phrase that captures the essence of your company’s point of differentiation.

Once that idea has been expressed in a phrase, test the strategic principle for its enduring nature. Does it capture what you intend to do for only the next three to five years, or does it capture a more timeless essence: the genetic code of your company’s competitive differentiation? Then test the strategic principle for its communicative power. Is it clear, concise, and
memorable? Would you feel proud to paint it on the side of a truck, as Wal-Mart does?

Finally, test the principle for its ability to promote and guide action. In particular, assess whether it exhibits the three attributes of an effective strategic principle. Will it force trade-offs? Will it serve as a test for the wisdom of a particular business move, especially one that might promote short-term profits at the expense of long-term strategy? Does it set boundaries within which people will nonetheless be free to experiment?

Given the importance of getting your strategic principle right, it is wise to gather feedback on these questions from executives and other employees during an incubation period. Once you are satisfied that the statement is accurate and compelling, disseminate it throughout the organization.

Of course, just as a brilliant strategy is worthless unless it is implemented, a powerful strategic principle is of no use unless it is communicated effectively. When CEO Jack Welch talks about aligning employees around GE's strategy and values, he emphasizes the need for consistency, simplicity, and repetition. The approach is neither flashy nor complicated, but it takes enormous discipline and could scarcely be more important. Welch has so broadly evangelized GE's “Be number one or number two” strategic principle that employees are not the only ones to chant the rant. So can most business writers, MBA students, and managers at other companies.

When Rethinking Is Required
No strategy is eternal, nor is any strategic principle. But even if the elements of your strategy change, the very essence of it is likely to remain the same. Thus, your strategy may shift substantially as your customers’ demographics and needs change. It may have to be modified in light of your company's changing costs and assets compared with those of competitors. Strategic half-lives are shortening, and, in general, strategy should be reviewed every quarter and updated every year. But while it's worth revisiting your strategic principle every time you reexamine your strategy, it is likely to change only when there is a significant shift in the basic economics and opportunities of your market caused by, say, legislation or a completely new technology or business model.

Even then, your strategic principle may need only refining or expanding. GE's strategic principle has been enhanced, but not replaced, since Welch articulated it in 1981. Similarly, AOL's strategic principle will need to be broadened, but not necessarily jettisoned, following its merger with Time Warner. Ultimately, the merged company's strategic principle will also need to embody the importance of high-quality and relevant content, Time Warner's hallmark.

Vanguard takes explicit steps to ensure that the direction provided by its strategic principle remains current. For example, as part of an internal “devil's advocacy” process, managers are divided into groups to critique and defend past decisions and current policies. Recently, the group reconsidered two major strategic policies: the prohibitions against opening branch offices and against acquiring money management firms. After considerable discussion, the policies remained in place. According to CEO Brennan, “Sometimes the greatest value [of revisiting our strategic principle] is reconfirming what we’re already doing.” At the same time, Vanguard has the process to identify when change is needed.

Fundamental Principles
Respondents to Bain's annual survey of executives on the usefulness of management tools repeatedly cited the key role a mission statement can play in a company’s success. We agree that a mission statement is crucial for promulgating a company's values and building a robust corporate culture. But it still leaves a large gap in a company's management communications portfolio. At least as important as a mission statement is something that promulgates a company's strategy—that is, a strategic principle.

The ability of frontline employees to execute a company's strategy without close central oversight is vital as the pace of technological change accelerates and as companies grow rapidly and become increasingly decentralized. To drive such behavior, a company needs to give employees a mandate broad enough to encourage enterprising behavior but specific enough to align employees’ initiatives with company strategy.

While not a perfect analogy, the U.S. Constitution is in some ways like a strategic principle. It articulates and embodies the essence of the country's “strategy”—to guarantee liberty and justice for all of its citizens—while providing
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direction to those drafting the laws and regulations that implement the strategy. While no corporate strategy has liberty and justice at its heart, the elements of an effective strategy are just as central to the success of a company as those concepts are to the prosperity of the United States. And in neither case will success be realized unless the core strategy is communicated broadly and effectively.

Bain consultant Coleman Mark assisted with this article.

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Further Reading

**ARTICLES**

**What Is Strategy?**
by Michael E. Porter
Harvard Business Review
November–December 1996
Product no. 96608

An effective strategic principle helps a company to maintain strategic focus, including forcing trade-offs and creating carefully integrated systems. In this article, Porter expands on those points within his definition of strategy. As he explains, operational effectiveness—producing, selling, and delivering offerings faster than rivals—can reap advantages. However, rivals can quickly copy these “best practices.” Therefore, companies need to hone their strategic positioning, enabling them to achieve sustainable competitive advantage through 1) preserving their distinctive qualities, 2) performing different activities from rivals, or 3) performing similar activities in different ways. Effectively implementing strategy requires trade-offs (“what we won’t do”) and reinforcing “fit” among company activities.

**E-Loyalty: Your Secret Weapon on the Web**
by Frederick F. Reichheld and Phil Schefter
Harvard Business Review
July–August 2000
Product no. R00410

This article applies Gadiesh and Gilbert’s insights about strategy to the special challenges of e-commerce. Using several of the same company examples cited in “Transforming Corner-Office Strategy,” including The Vanguard Group, AOL, and Dell, Reichheld and Schefter emphasize the importance of making trade-offs and the dangers of “trying to be all things to all people.” They also stress the importance of maintaining strategic focus and integrating all operations, including on-line activities.

**Speed, Simplicity, Self-Confidence: An Interview with Jack Welch**
by Noel Tichy and Ram Charan
Harvard Business Review
September–October 1989
Product no. 89513

This interview with General Electric CEO Jack Welch examines in greater depth the everyday ramifications of GE’s strategic principle: “Be number one or number two in every industry in which we compete, or get out.” As Welch makes clear, this principle translates into five “keys” that unlock the energy of GE’s people: 1) candor (seeing the world as it is), 2) simplicity, 3) self-confidence in communicating objectives, 4) two-way communication between leaders and followers, and 5) evaluation of and reward for agility and candor.