Some of these practices are being tested at the Staples Prototype Lab, located down the street from the company's headquarters in Framingham, Massachusetts. Every day, vice president of visual merchandising Bob Madill and his staff work to overcome the limitations of atoms and space so customers can navigate a Staples store as if it were pure information.

As a result of the lab's research, Staples stores are laid out in arcs composed of "destination categories" – the classes of items most in demand – in the manner of home pages that present top-level categories for visitors to explore. Large signs hang over each area; smaller signs below designate subcategories. Staples used to disrupt the informational mapping of stores with signs announcing unrelated special offers. Those "focals" might have moved more of a specific product, but they're the real-world equivalent of pop-up ads, so Staples dropped them.

Customers' informational needs also determine shelf height and, thus, the number of items a store can stock. "By having a store that's mostly low, it's easily scannable" by human eyes, Madill says. Higher shelves would accommodate more items, but customers wouldn't be able to see the signs.

And Staples has responded to customers' desire for product information by, for example, breaking up the single, unified listing of printer inks, formerly kept at the corner of that destination category. The company now distributes information about inks in smaller catalogs kept next to the specific brands they cover. In-store catalog use has risen from 7% to 20%, increasing customer satisfaction and decreasing the need for intervention by store assistants.

Shaping space around information is becoming a priority for every business trying to meet customer expectations in a physical setting. The Web has made customers the masters of their own attention. Try making them stick, and they won't stick around.

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13

Follow the Leader

New leaders galvanize companies with inspiring themes and ambitious plans, but they also influence corporate culture in simpler ways. All have their own personal "heuristics" – rules of thumb – that they develop, often unconsciously, to help them make quick decisions. While leaders may not intentionally impose their heuristics on the workplace, these rules are nonetheless noted and followed by most employees. Soon, the heuristics are absorbed into the organization, where they may linger long after the leader has moved on.

For example, if an executive makes it clear that excessive e-mail irritates her, employees – unsure whether to include her in a message – will simply opt not to. A leader who appears suspicious of employee absences discourages people from even thinking about conferences or outside educational opportunities. Employees may be grateful that such conditions help them avoid protracted internal debate over whether or not to take a particular course of action. But as everyone adopts the same heuristics, the culture shifts, becoming more or less open, more or less inclusive, more or less formal. Because such behavior is difficult to change, leaders should think carefully about what values their rules communicate. They may even want to create new rules to shape the organization to their liking.

That's what I did ten years ago when the Max Planck Society hired me as a director to found my own research group at the Institute. Each new director gets to build his staff from scratch, and I wanted to create an interdisciplinary group whose members actually talked to one another and worked and published together (a difficult thing to do because researchers tend to look down on those in other fields). First I considered the question of what values should inform researchers' day-to-day decisions. Then I came up with a set of rules – not verbalized but acted upon – that would create the kind of culture I desired:

It is right to interact as equals. Clearly, issues of performance, role, and circumstance make total equality impossible. But to ensure a level playing field at the beginning, I hired all the researchers at once and had them start simultaneously. That way, no one knew more than anyone else, and no one was patronized as a younger sibling.

It is right to interact often. Research shows that employees who work on different floors interact 50% less than those who work on the same floor, and the difference is even greater for those working in different buildings. So when my growing group needed an additional 2,000 square feet, I vetoed the architect's proposal that we construct a new building and instead extended our existing offices horizontally.

As everyone adopts the same rules of thumb, the culture shifts, becoming more or less open, more or less inclusive, more or less formal.

It is right to interact socially. Informal interaction greases the wheels of formal collaboration. To ensure a minimum daily requirement of chat, I created a custom: Every day at 4 PM, someone in the group prepares coffee and tea, and everyone gathers for caffeine and conversation.

It is right to interact with everyone. As director, I try to make myself available for discussion at any time. That sets the example for other leaders, who will make themselves equally available.

These rules have become an indelible part of who we are at the Max Planck Institute and a key to our successful collaboration. I would advise all leaders to conduct a mental inventory of their own rules of thumb and to decide whether they want employees to be guided by the same heuristics. If not, they should change their actions accordingly. As the boss decides, so the organization decides.

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14

Wake Up and Smell the Performance Gap

Since the bubble burst in 2000, we have been obsessed with economic imbalances: low levels of savings and high levels of debt, America's trade deficit, the rise of China and its challenge to developed economies. But one imbalance has received far fewer headlines – the gap between the economic performance of nations and of companies. That gap yawns wider every month, yet both sides continue to act as if the playing field were still level. As a result, states overreach while companies harbor unrealistic expectations about what governments can do for them.

Of course, the idea that global capitalism would erode state power dates back to Karl Marx. Twenty years ago, then–Citibank chairman Walter Wriston and others were talking about the decline of nations and the rise of multinationals. But states have continued to command a large share of economic output, and 9/11 and its aftermath have only strengthened the perception that nations, with their near monopoly on military might, are the world's driving force. Today, however, a comparison of GDP growth with corporate profits reveals that, the war on terror notwithstanding, companies are outpacing even the best-performing states, and nations continue to lose ground. (See the exhibit "Companies Widen Their Lead.")

In 2005, global GDP growth was approximately 3.2%, according to the IMF, and should be about the same in 2006. That is the aggregate of nearly 200 national economies, and it reflects both China (9.5%) at one extreme and Zimbabwe (–7.1%) at the other. The United States, which represents nearly a third of the global economy, has been registering steady growth of 3.5% to 4% a year.

Now look at companies. In 2004, earnings for the S&P 500 grew 22%, with revenue growth exceeding 10%. Coming off the high base of 2004, earnings in 2005 will be in the 13% to 15% range. Companies with global reach have done even better. For example, in 2004, 101 S&P 500 companies derived between 20% and 40% of their revenue outside the United States and registered a staggering 42% growth in earnings.

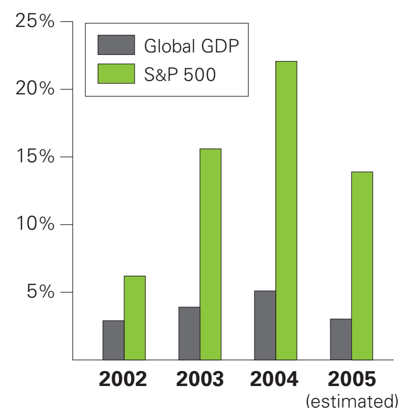
The performance gap will likely widen as offshoring and advancements in information technology diminish corporations' loyalty to their home countries. A decade ago, Mercedes-Benz was still a "German" company, General Electric was "American," and Sony was "Japanese." Today, these companies are global not only in reach but also in identity, mission, and outlook. Companies are freer than ever to move capital and human resources in order to maximize returns, arbitraging the world. States, by contrast, are more or less stuck with the resources they have.

Yet despite those changes, states continue to behave as though they were ascendant. Consider their approach to taxation, even in the face of the World Trade Organization's successful erosion of trade barriers, which significantly undermines the right of governments to collect revenue. The European Union's attempt to slap tariffs on bras made in China was laughable, as was the ill-named American Jobs Creation Act of 2004, which gave U.S.-domiciled companies a onetime exemption to repatriate profits from abroad. Meanwhile, central banks maintain the conceit that interest rates are best regulated by the state, even as evidence piles up that global flows of capital exert more influence on rates than any one bank – including the Federal Reserve – could hope to. The result: Governments keep spending and borrowing even as most face shrinking or stagnant revenues.

For the moment, the rise of companies is greeted by applause on the right and dismay on the left. However, everyone is at risk if states and corporations fail to recognize their altered status. States can't turn back the tide, but they can still create obstacles. Government leaders must accept their diminished influence and not try to create regulatory hurdles for errant companies or waste resources prosecuting a random few. Instead, states should look for ways to channel the activities of global compa-

Companies Widen Their Lead

The gap between growth rates of global GDP and profits of the S&P 500 has widened for most of the past few years.



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